Finance

Annual Report 2005-06

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PREFACE

Public Accounts 2005-06

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the Annual Report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The Annual Report of the Government of Alberta released June 26, 2006 contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the *Measuring Up* report.

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

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

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2006, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 22, 2006 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original Signed]

Honourable Shirley McClellan
Minister of Finance
September 22, 2006

MESSAGE FROM THE MINISTER

Alberta observed a number of significant milestones in the 2005-06 fiscal year. We celebrated our Province's 100th anniversary and it was the first time in 12 years in which resources were not required for debt reduction.

With our debt-free status and record resource revenue, we have been able to dedicate the 2005-06 surplus to addressing Alberta's infrastructure needs and increasing the Province's savings. Albertans have themselves to thank - they kept us focused on getting the Province's fiscal house in order.

Regular inflation proofing of the Alberta Heritage Savings Trust Fund commenced in 2005-06, with the Fund retaining $382 million to protect its value. As well, the government deposited $1.75 billion in the Heritage Fund, including $750 million for the new advanced education endowment.

Alberta's exceptional financial performance in 2005-06 also permitted increases in other savings:
$200 million in the Alberta Heritage Foundation for Medical Research Endowment Fund,
$100 million in the Alberta Heritage Science and Engineering Research Endowment Fund, and
$250 million in the Alberta Heritage Scholarship Fund.

The government's fiscal framework was amended in 2005-06 to reflect the current energy marketplace and the elimination of the accumulated debt. The limit on resource revenue that can be used for budget purposes was increased to $4.75 billion.

The Sustainability Fund, created to protect spending from volatile revenue and the cost of emergencies and disasters, provided $1 billion to help pay for the costs of disasters such as floods, forest fires and mountain pine beetles, and to provide natural gas rebates triggered by high natural gas prices.

Our Province's strong fiscal position continues to be recognized by international bond rating services. For the fifth consecutive year, Dominion Bond Rating Service, Moody's Investor Service, and Standard and Poors rated Alberta as triple A. We are the only province in Canada with such status.

A competitive tax regime is important to attract investment and encourage entrepreneurship. Albertans and Alberta businesses continued to enjoy the lowest overall tax regime in Canada in 2005-06, as several measures were taken to maintain Alberta's tax competitiveness.

The Alberta Family Employment Tax Credit was enhanced by increasing payment amounts and expanding it to include more children. Senior homeowners began to receive assistance to protect them from increases to school property taxes.

A review of Alberta's tax system in 2005-06 resulted in changes introduced with *Budget 2006*: the general corporate income tax rate was reduced to 10 per cent from 11.5 per cent, health care insurance premium thresholds were increased, Alberta's personal income tax system continued to be adjusted to prevent inflation from increasing taxes, and the basic personal and spousal credit amounts were increased by an additional $100.

Alberta's resource wealth belongs to all Albertans. With record resource revenue in 2005-06, the government gave $1.3 billion back to Albertans in the form of the *Alberta 2005 Resource Rebate*.

Working or retired, Albertans want to know their pensions are secure. In 2005-06, we consulted with stakeholders on proposed regulatory amendments to improve the oversight of private sector pensions. The changes proposed in 2005-06 followed legislative amendments approved in the previous fiscal year to increase the transparency and accountability of pension plans.

Alberta is taking a lead role in reforming securities regulation. The first phase of the passport system was implemented across most of Canada in 2005-06, allowing participants to access multiple markets by meeting certain filing requirements in only one jurisdiction. We continue to work with our provincial and territorial partners to enhance investor protection and improve the competitiveness of Canada's capital markets.

The newly created Automobile Insurance Rate Board held public hearings and reviewed compulsory premiums in 2005-06. Premiums were reduced in November 2005, bringing total reductions to 15 per cent since reforms were implemented in the previous year to make automobile insurance fair and affordable for Albertans.

Thanks to the hard work and dedication of Albertans, we were able to make decisions to shape the next Alberta - with a well-educated workforce, strong fiscal position and a lead role in Canada - while at the same time looking back at 100 years of the province's history. It is the spirit and determination of Albertans that will see this province prosper as it heads into its next 100 years.

[Original Signed]

Shirley McClellan
Minister of Finance
September 22, 2006

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

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

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

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Finance. Under the direction of the Minister I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

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

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

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

[Original Signed]

Brian Manning
Deputy Minister of Finance
September 22, 2006

OVERVIEW

- MINISTRY VISION, MISSION, CORE BUSINESSES AND GOALS
- RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES
- OPERATIONAL OVERVIEW
- SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR

MINISTRY VISION, MISSION, CORE BUSINESSES AND GOALS

Vision

A province that is innovative and globally competitive with a fiscally sustainable and accountable government.

Mission

Implement the government's fiscal framework and financial policies and provide innovative revenue, investment and risk management.

Core Businesses and Goals

Core Business:	Fiscal Planning and Financial Management
Goal 1	A Financially Strong, Sustainable and Accountable Government
Goal 2	A Fair and Competitive Provincial Tax System
Goal 3	Revenue Programs are Administered Fairly, Efficiently and Effectively
Core Business:	Investment, Treasury and Risk Management
Goal 4	Investment Policies that will Provide the Greatest Financial Returns, with an Acceptable Level of Risk, for Current and Future Generations of Albertans
Goal 5	Superior Investment Returns Subject to Client-defined Objectives and Policies
Goal 6	Effective Management of Financial Assets, Liabilities and Risk
Goal 7	Proactively Managed Risk
Core Business:	Financial Sector and Pensions
Goal 8	Reliable and Competitive Financial and Insurance Products and Services
Goal 9	Quality and Competitive Financial Services Accessible to Albertans and Local Authorities
Goal 10	An Effective, Efficient and Streamlined Securities Regulatory System
Goal 11	Pensions that Deliver on Promises

RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES

Core Businesses	Fiscal Planning and Financial Management	Investment, Treasury and Risk Management	Financial Sector and Pensions
Department and Reporting Entities	• Office of Budget and Management • Treasury Management • Tax and Revenue Administration	• Alberta Investment Management	• Pensions, Insurance Financial Institutions • Policy and Strategic Planning
		Funds	***Agencies, Boards and Commissions***
		• *Alberta Risk Management Fund* *Endowment Funds* • *Alberta Heritage Savings Trust Fund* • *Alberta Heritage Foundation for Medical Research* • *Alberta Heritage Scholarship Fund* • *Alberta Heritage Science and Engineering Research Endowment Fund*	• *Alberta Capital Finance Authority* • *Alberta Pension Administration Corporation* • *Alberta Local Authorities Pension Plan Corporation* • *ATB Financial* • *Alberta Automobile Insurance Rate Board* • *Alberta Insurance Council* • *Alberta Securities Commission* • *Credit Union Deposit Guarantee Corporation (CUDGC)*

OPERATIONAL OVERVIEW

MINISTRY OF FINANCE www.finance.gov.ab.ca

Terrace Building, 9515 - 107 Street Edmonton, Alberta T5K 2C3	Haultain Building, 9811 - 109 Street Edmonton, Alberta T5K 2L5	1100, 715-5th Avenue S.W. Calgary, Alberta T2P 2X6

Office of Budget and Management (OBM)

OBM manages the provincial budget and business plan review and approval process, prepares economic and fiscal forecasts, and provides research, analysis and recommendations on the Province's fiscal, economic and taxation policies. OBM is responsible for intergovernmental fiscal relations and for providing statistical information about the Province. It also proposes and prepares accounting and financial control policies, budget documents, quarterly budget updates, annual financial statements and performance measurement reports.

OBM is divided into the following six areas: Budget Planning and Integration, Business Planning, Economics and Public Finance, Financial Accounting and Standards, Performance Measurement, and Tax Policy.

Tax and Revenue Administration (TRA)

TRA administers Alberta Finance's tax and related programs, and contributes to the development of tax policy within the Province. The focus is a fair, competitive, simple and efficient provincial tax and revenue system.

Corporations, individuals and trusts are registered under the *Corporate Income, Tourism Levy, Fuel Tax* and *Tobacco Tax Acts* for the various programs TRA administers. The division maintains client accounts, processes tax payments, provides refunds, validates and processes tax returns and rebate claims, and initiates filing and collection activities for all TRA clients.

Desk and field audits of corporate and commodity taxpayers' books and records are performed to ensure compliance with provincial tax legislation. If tax or tax credit errors are noted, the necessary remedial action, including reassessment, is taken. TRA also partners with Government of Alberta ministries and other provincial/federal tax administrations on initiatives to develop policies, improve compliance and implement educational strategies for the efficient administration of tax and revenue programs.

TRA provides information and responses to general enquiries, technical opinion and ruling services to clients and staff, and administers dispute resolution mechanisms for TRA actions. TRA works with the Tax Policy group in Finance to develop tax policies and legislation and provides central services for the federal GST to other Alberta ministries and agencies. As part of its client relations function, TRA coordinates client group meetings to discuss common issues. To support and promote compliance, TRA produces and maintains a variety of hardcopy and online publications. These are designed to assist internal and external clients to understand tax legislation and requirements in Alberta. TRA has four branches: Revenue Operations, Audit, Tax Services, and Business Technology Management.

Investment, Treasury and Risk Management

Alberta Investment Management (AIM) is comprised of three operating groups: the Investment Management Division (IMD), the Investment Administration Division (IAD), and the Internal Audit and Compliance Office (IACO).

IMD is the fifth largest public sector asset manager in Canada with $61.3 billion in assets under management as of March 31, 2006. IMD was established to act as the investment manager for pools of capital assigned by statute to the Minister of Finance and for the assets of other provincial public sector bodies, where specific agreements have been made.

IMD is organized into nine functional areas: Portfolio Analysis and Research, Active Canadian Equities, Fixed Income Operations, Structured Investments, Fund Management, External Fund Management, Real Estate, Mortgages and Private Placements.

IMD provides a comprehensive set of products, including such asset coverage as fixed income, public and private equities, infrastructure, timberlands, real estate, commercial mortgages and absolute return strategies. In some cases, specialized private sector investment managers are used to manage specific investment mandates.

IMD manages the assets of a broad range of client funds including six public sector pension funds, a number of endowment funds, and other special purpose funds. As of March 31, 2006, assets under management include:

- Pension Investments (totaling $24.2 billion) comprising of the Local Authorities Pension Plan, the Public Service Pension Plan, the Management Employees Pension Plan, the Universities Academic Pension Plan, the Special Forces Pension Plan, the Special Forces Indexing Plan, the Provincial Judges and Masters in Chambers Pension Fund, the Provincial Judges Supplementary Retirement Pension Plan, and the Supplementary Retirement Plan for Public Service Managers.
- Government Investments (totaling $33.6 billion) comprising of the General Revenue Fund, the Sustainability Fund, the Debt Retirement Account, the Capital Account, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Ultimate Heir Trust "B" Endowment Fund, Alberta Innovation and Science Prion Research Initiative Fund and other government portfolios.
- Other Investments (totaling $3.5 billion) comprising of funds managed on behalf of the Workers' Compensation Board, the Long Term Disability Fund Bargaining Unit, the Long Term Disability Fund Management, Opted Out and Excluded Employees, and other funds.

IAD has three internal groups: Securities Administration, Investment and Debt Information Systems, and Valuation and Fund Accounting. IAD provides support for investment operations including trade transaction monitoring and processing; fund and portfolio valuation and performance measurement; custodial bank interface and oversight; investment systems oversight and systems support; development and maintenance.

Securities Administration works with the Investment Management Division (IMD) to ensure investment data is captured appropriately in the systems and that the financial transactions are settled with the corresponding brokers and financial institutions. Investment and Debt Information Systems is responsible for all of the software development, systems development and support required within IAD, IMD, and the Treasury Management Division. Valuation and Fund Accounting prepares the weekly valuation of investment portfolios, measures investment performance, and processes pooled fund unit transactions.

IACO is responsible for a risk-based compliance and internal audit program for the investment operation. This group is headed by the Lead Internal Audit and Compliance Officer and is independent of any investment unit. IACO reviews the reliability and integrity of financial, administrative and operational information. This is accomplished by reviewing operations and programs to ascertain whether they are being carried out as planned, and whether the results of operations are consistent with the established goals and objectives.

Treasury Management (TM) is responsible for cash management of short-term borrowing and investments, banking and cash forecasting, and arranging financing for the government and provincial corporations. TM is also responsible for managing the investment of the assets of the General Revenue Fund set aside for specific purposes such as debt retirement, sustainability and capital projects and monitoring and managing loans and guarantees. The division provides financial and banking advice to other government departments including active involvement in the Province's P3 projects. TM is divided into the following three areas: Capital Markets, Loans and Guarantees, Banking and Cash Forecasting.

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

RMI is divided into two areas: Risk Management Operations and Claims Management. Risk Management Operations assists participants to identify, minimize and, where appropriate, finance adverse effects of accidental loss. Claims Management administers all claims covered under the Province's Risk Management Fund and makes recommendations aimed at reducing risk.

Pensions, Insurance and Financial Institutions

The Pensions, Insurance and Financial Institutions (PIFI) division is responsible for the regulation and oversight of credit unions, loan and trust corporations, financial institutions, insurance companies and private sector pension plans. It also provides policy support and analysis to the Minister of Finance in these areas, as well as for ATB Financial, public sector pension plans and the Canada Pension Plan. The Division is the government contact for the following entities that report to the Minister of Finance: Automobile Insurance Rate Board; Alberta Insurance Council; Credit Union Deposit Guarantee Corporation; Alberta Pensions Administration Corporation; Alberta Local Authorities Pension Plan Corp.; ATB Financial and Alberta Capital Finance Authority. PIFI is divided into the following five areas: Pensions, Insurance, Financial Institutions, Public Sector Pension Policy, and Divisional Support.

Policy and Strategic Planning

Policy and Strategic Planning (PSP) is responsible for short and long-term revenue analysis, and for policy development to support the Ministry's core businesses and goals. Policy and Strategic Planning works closely with Tax and Revenue Administration and the Office of Budget and Management. PSP provides oversight of securities regulation in Alberta and support to the Endowment Fund Policy Committee, which provides advice on appropriate investment policies for Alberta's endowment funds.

REGULATORY AGENCIES

Automobile Insurance Rate Board (AIRB) www.airb.gov.ab.ca

#200 Terrace Building, 9515 - 107 Street
Edmonton, Alberta
T5K 2C3

AIRB is responsible for setting premiums annually for compulsory automobile coverage and monitoring optional coverages.

A copy of the AIRB's annual report can be obtained from its internet site or by contacting the Edmonton office.

Alberta Insurance Council (AIC) www.abcouncil.ab.ca

#901 TD Tower, 10088 - 102 Avenue
Edmonton, Alberta
T5J 2Z1

AIC is responsible for examining, licensing and disciplining insurance agents, brokers and adjusters in Alberta and for investigating consumer complaints against the industry.

The Annual Report for AIC is available on its internet site.

Credit Union Deposit Guarantee Corporation (CUDGC) www.cudgc.ab.ca

18th Floor, 10130 - 103 Street
Edmonton, Alberta
T5J 3N9

CUDGC regulates and supervises the business practices of Alberta credit unions and guarantees deposits according to legislation. While CUDGC strives to maintain the Deposit Guarantee Fund at a level that will enable the Corporation to independently provide the 100% deposit guarantee, the Government of Alberta will ensure that CUDGC can fulfill its guarantee obligation. The Corporation provides advice to Alberta credit union boards and management to help improve their skills and help them avoid unsound business practices or other problems.

The Annual Report for CUDGC is available on its internet site.

Alberta Pensions Administration Corporation (APA) www.apaco.ab.ca

3rd Floor, 10611 - 98 Avenue
Edmonton, Alberta
T5K 2P7

APA provides pension administration services to boards, employers, members and pensioners of Alberta public sector pension plans. Those pension services consist of the collection of pension contributions, maintenance of member accounts, payments of pension benefits and provision of information.

Services are provided to 472 employers, approximately 187,000 active and deferred members, and 58,000 pensioners.

APA's Annual Report is available on its internet site.

Alberta Local Authorities Pension Plan Corp. www.lapp.ab.ca

P.O. Box 1315
Edmonton, Alberta
T5J 2M8

Alberta Local Authorities Pension Plan Corp. (LAPP Corp.) was created in December of 2005 for the purpose of providing support to the Local Authorities Pension Plan Board of Trustees (LAPP Board) in the execution of their legislated objects set out in the *Public Service Pension Plans Act*.

LAPP Corp. provides analysis and recommendations on matters related to the legislative obligations of the LAPP Board as well as high-level strategic guidance on broader issues that may impact the plan. In fulfilling these roles, LAPP Corp. works closely with the LAPP Board, APA, and other LAPP stakeholders.

ATB Financial www.atb.com

9888 Jasper Avenue
Edmonton, Alberta
T5J 1P1

ATB Financial (ATB) is a $17.6 billion, full-service financial institution based in Edmonton, Alberta. As a leading financial services provider to individuals, small business and the agri-industry in Alberta, it serves 600,000 Albertans in 242 communities through various branches and agencies, as well as through a Customer Contact Centre and the Internet. The repayment of all deposits held by ATB is guaranteed by the Province.

ATB Financial's Annual Report is available on its internet site.

Alberta Capital Finance Authority (ACFA)	www.acfa.gov.ab.ca

2450 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta
T5J 3N6

ACFA is a non-profit authority established under the authority of the *Alberta Capital Finance Authority Act*. Its mission is to provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost while still maintaining the viability of the ACFA.

In order to deliver the lowest possible funding cost, ACFA debt obligations are guaranteed by the Province.

ACFA's Annual Report is available on its internet site.

SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR

- Alberta marked its centennial year with the beginning of a new fiscal era for the province. *Budget 2005* was the first budget in 12 years in which resources were not required for debt reduction after Alberta eliminated its accumulated debt in 2004-05.
- Alberta recorded a surplus for the twelfth consecutive year. As reported in the *2005-06 Government of Alberta Annual Report*, revenue exceeded expense by $8.7 billion, about $7 billion higher than budgeted. The increase was primarily due to record resource revenue of $14.3 billion.
- Alberta's economy out-performed every other province for the second-straight year, growing by 4.5 per cent in 2005. Employment grew by almost 27,000, or 1.5 per cent, as Alberta recorded the lowest unemployment rate among provinces at 3.9 per cent. Albertans had the highest personal disposable income per capita in Canada, 19 per cent above the national average. High energy prices encouraged strong exploration and development activity in Alberta's energy sector, while retail sales increased by 12 per cent, almost double the Canadian average. Housing starts reached a 27-year high, manufacturing shipments increased by 12 per cent and the agriculture sector experienced some improvement with the opening of the U.S. border to live cattle under the age of 30 months. For the ninth consecutive year, Alberta attracted the highest net interprovincial migration in Canada.
- Of the $8.7 billion surplus allocated to the Sustainability Fund, $3.6 billion was transferred to the Capital Account to help pay for capital projects in future years. Another $2.7 billion was deposited in the Heritage Fund and other endowments. The remaining surplus was left in the Sustainability Fund. Including the cash to be transferred from better than forecast fourth quarter results, assets in the Sustainability Fund will be $5.2 billion, $2.7 billion higher than the minimum target of $2.5 billion.
- Over $1.3 billion was provided to Albertans through the *Alberta 2005 Resource Rebate*.
- In 2005-06, over $1 billion was withdrawn from the Alberta Sustainability Fund to pay for emergencies/disasters such as flooding in southern Alberta, forest fires, mountain pine beetle infestations, and BSE as well as natural gas rebates.
- During the 2005-06 fiscal period, all endowment funds exceeded target performance measures, including the Heritage Savings Trust Fund which posted an overall rate of return of 15.2 per cent. The positive performance reflects strong economic growth in domestic and international markets, prudent investment management and careful asset mix selection.
- Alberta maintained its triple A credit rating, the highest among all the provinces. Rating agencies cite Alberta's strong financial position, the government's commitment to debt repayment and its record of balancing budgets as the key reasons for the top rating.

- The government conducted a review of the tax system in 2005-06, examining a wide range of issues including competitiveness with other jurisdictions, ongoing revenue needs and priorities for future tax cuts. The review concluded Alberta's tax system serves the province well for the most part, with Albertans continuing to enjoy the lowest overall tax load in Canada. Two priorities identified for future tax cuts were further reductions to the general corporate income tax rate and personal tax relief for lower and middle income Albertans. The government acted on these priorities in *Budget 2006*, reducing the corporate income tax rate from 11.5 per cent to 10 per cent, increasing health care insurance premium thresholds, adjusting the personal income tax system to prevent inflation from increasing taxes, and raising basic and spousal credit amounts by an additional $100 above the indexation adjustment.
- The Alberta Family Employment Tax Credit was enhanced by increasing payment amounts, expanding it to include more children, and indexing benefits. Families are now able to receive up to $550 for the first child, $500 for the second, $300 for the third and $100 for the fourth. The government also began to provide assistance to senior homeowners to protect them from increases to school property taxes.
- The provincial uniform school property tax rates were reduced by 5 per cent in 2005, marking the twelfth straight year rates have been either reduced or frozen.
- The hotel room tax was reduced from 5 per cent to 4 per cent and converted into a tourism levy. Annual tourism funding is now based on the revenue received under the program.
- Through the revision of returns and claims, the Tax and Revenue Administration (TRA) Division of Finance collects overdue accounts to recover tax revenues that otherwise may be lost. TRA's efforts, which had associated costs of $24.9 million, obtained an additional $296.5 million of net revenue, essentially recovering $12 for every $1 spent. Approximately 93.7 per cent of tax revenue was obtained through voluntary compliance. This year's positive result was influenced by large voluntary revenue increases related to strong economic activity and expanded audit coverage resulting in better self-compliance.
- A new *Fuel Tax Act* was introduced and passed. The new act now awaits proclamation pending the development of the new Fuel Tax Regulations.
- A new act, the *Unclaimed Personal Property and Vested Property Act*, was introduced but not passed yet. The new act will establish a repository for unclaimed property and clear rights, obligations and procedures for managing vested property in Alberta.
- Premiums on mandatory auto insurance were reduced by 10 per cent in 2005. A 6 per cent reduction was introduced on July 1. An additional 4 per cent reduction came into effect November 1, following four days of public meetings with stakeholder groups and Alberta residents in June. The total premium reduction since reforms were introduced is 15 per cent.
- Changes to the F*iscal Responsibility Act* established the Debt Retirement Account (DRA) within the General Revenue Fund. The amount of financial assets in the DRA at fiscal year-end must be equal or greater than the amount of accumulated debt and can only be used for debt repayment. As of March 31, 2006, Alberta's accumulated debt, less the cash set aside in the DRA, was zero.

- Alberta Finance has committed to review and rewrite the statutory provisions of the *Insurance Act* related to contracts by 2006-07. Stakeholders were consulted and the Government of Alberta is working in conjunction with the Government of British Columbia. The Pension, Insurance and Financial Institutions division will proceed with amendments to the *Insurance Act* based on these submissions and other relevant factors.
- The Alberta Government continued to work with other provinces and territories on the commitment to develop highly harmonized securities legislation. In September 2005, amendments to Canada's securities regulatory system came into effect, making it easier for businesses to access capital markets in most provinces and territories. The amendments formed the first step in implementing a passport system agreed to under a provincial/territorial Memorandum of Understanding signed in September 2004.
- Legislation was introduced to enhance protection of investors against false and misleading information issued by companies operating in Alberta's capital markets. Bill 25, an amendment to the *Securities Act*, grants secondary market investors the statutory right to sue public companies in Alberta that provide misleading disclosure or fail to make timely disclosure.
- ATB Financial had a net income of $199 million for the year. Total assets grew to $17.6 billion, up 14 per cent from the previous year. Retained earnings at March 31, 2006 were in excess of $1.3 billion.
- Expenses of the Ministry of Finance were $12 million, or 1.4 per cent under budget for 2005-06 due to such factors as lower manpower expenses, lower contracted services costs and lower interest costs.

REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO PERFORMANCE MEASURES

TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY

Management is responsible for the integrity and objectivity of the performance results included in the *Ministry of Finance's 2005-06 Annual Report*. My responsibility is to carry out the following specified auditing procedures on performance measures in the annual report. I verified:

Completeness

1. Performance measures and targets matched those included in Budget 2005. Actual results are presented for all performance measures.

Reliability

2. Information in reports from external organizations, such as Statistics Canada, matched information that the Ministry used to calculate the actual results.
3. Information in reports that originated in the Ministry matched information that the Ministry used to calculate the actual results. In addition, I tested the processes the Ministry used to compile the results.

Comparability and Understandability

4. Actual results are presented clearly and consistently with the stated methodology and are presented on the same basis as targets and prior years' information.

I found no exceptions when I performed these procedures.

As my examination was limited to these procedures, I do not express an opinion on whether the set of measures is relevant and sufficient to assess the performance of the Ministry in achieving its goals.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
August 9, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

RESULTS ANALYSIS

- MINISTRY FINANCIAL HIGHLIGHTS
- PERFORMANCE MEASURES, TARGETS AND RESULTS

MINISTRY FINANCIAL HIGHLIGHTS

REVENUE

(thousands of dollars)

	2005-06		2004-05
	Budget	Actual	Actual
Revenue	**$10,807,268**	**$12,150,270**	**$10,852,483**

Revenue for the Ministry was $1.3 billion, or 12% higher than last year.
(Actual – Actual)

- Strong personal income growth for Albertans resulted in higher personal income tax revenue for the province of $1.35 billion on a gross basis. From this $1.32 billion was paid out to all Alberta residents in the form of resource rebates.
- Corporate income taxes were higher than last year by $552 million due to strong economic growth and higher energy prices.
- Higher cash and investment balances in the Sustainability Fund and the Capital Account along with higher realized gains in the endowment funds resulted in an increase of $519 million in investment income.
- Higher lottery revenues resulted in an increase in transfers from the Lottery Fund of $136 million as compared to the previous year.

Revenue for the Ministry was $1.3 billion, or 12.4%, over budget.
(Budget – Actual)

- Investment returns were higher than budgeted in the endowment funds and balances increased in the Sustainability Fund and Capital Account resulting in an increase of $953 million in investment income. Investment income in the Alberta Heritage Savings Trust Fund was $716 million higher than budget; the Alberta Heritage Foundation for Medical Research Endowment Fund was $71 million higher; the Alberta Science and Engineering Research Endowment Fund was $38 million higher and the Alberta Heritage Scholarship Fund was $31 million higher than budget. Investment income of the Department was $100 million over budget. The Department's investment income comes from investments in the Sustainability Fund, the Capital Account and from the General Revenue Fund.
- Higher than expected lottery revenues resulted in increased transfers from the Lottery Fund to the General Revenue Fund of $191 million over budget.
- Growth in loan and retail deposits and lower loan loss provisions at ATB Financial resulted in earnings of $258 million over budget.

EXPENSE

(thousands of dollars)

	2005-06		2004-05
	Budget	Actual	Actual
Expense	**$889,971**	**$877,669**	**$907,608**

Ministry expenses were $30 million, or 3.2% lower than in 2005.
(Actual – Actual)

- The government continued to pay down its outstanding debt, resulting in lower debt servicing costs of $54 million for the Department and $33 million in Alberta Capital Finance Authority (ACFA).
- The Fiscal Planning and Financial Management program expenses were lower than last year by $11.7 million due to lower interest payments on corporate income tax refunds, lower manpower costs as a result of vacancies and lower contract services costs.
- These savings were offset by increased investment management fees and higher pension provisions.

Expenses for the Ministry were $12 million, or 1.4%, under budget.
(Budget – Actual)

- The Fiscal Planning and Financial Management program was $8.9 million under budget mainly due to lower than the budgeted statutory interest payments on corporate tax refunds.
- The Financial Sector and Pensions program was $9.1 million under budget due to the lower interest costs on the debt of the Alberta Capital Finance Authority.
- While the Investment, Treasury and Risk Management program was only $3.6 million under budget, their activity included an $11.25 million unbudgeted transfer to the Access to the Future Fund; a $5 million reduction in transfers from the Medical Research Endowment Fund to the Medical Research Foundation due to reduced discretionary spending by the Foundation and a $5.1 million reduction in transfers from the Science and Engineering Research Endowment Fund to the Science and Engineering Research Foundation due to delays in implementing new programs.
- Debt Servicing costs for the department were also $43.1 million under budget due to the continued pay-down of the overall debt balances; $2.5 billion in 2006, down from $3.7 billion in 2005.
- This was offset by higher Valuation Adjustments of $51.5 million. This variance was caused mainly by a $40 million increase in the pension obligations on the pension funds administered by the Department of Finance. It was expected that these obligations would be reduced in the 2005-06 year. The increase in the obligations is mainly due to a change in the discount rate used in the actuarial calculation of the future cash flows of the pension plans.

EXPENSE BY CORE BUSINESS

MINISTRY EXPENSE BY 2005-06 CORE BUSINESS
(thousands of dollars)

	2005-06 Budget	2005-06 Actual	2004-05 Actual
Fiscal Planning and Financial Management	62,354	52,860	64,706
Investment, Treasury and Risk Management	494,101	447,337	480,629
Financial Sector and Pensions	346,516	337,396	355,732
	1 **902,971**	**837,593**	**901,067**

EXPENSE BY FUNCTION

MINISTRY EXPENSE BY FUNCTION
(thousands of dollars)

	2005-06 Budget	2005-06 Actual	2004-05 Actual
Health	55,312	50,211	50,185
Education	23,842	34,254	23,104
Agriculture, Resource Management and Economic Development	23,488	18,261	13,854
Protection of Persons and Property	25,942	23,043	20,441
Regional Planning and Development	287,009	282,446	304,692
General Government	204,131	189,244	194,293
Debt Servicing Costs	283,247	240,134	294,498
	1 **902,971**	**837,593**	**901,067**

1 Excludes pension provisions of $13,000 for 2005-06 Budget and $40,076 for 2005-06 Actual.
Excludes pension provisions of $6,541 for 2004-05 Actual.

PERFORMANCE MEASURES, TARGETS AND RESULTS

CORE BUSINESS: FISCAL PLANNING AND FINANCIAL MANAGEMENT

Alberta's strategy for maintaining a balanced budget includes legislating a fiscal framework governing budgeting and fiscal management. In addition to making balanced budgets the law, the fiscal framework operates to protect fiscal plans from revenue volatility and the costs of emergencies and disasters. Responsibility for the framework - enshrined in the *Fiscal Responsibility Act (FRA)* - rests mainly with Alberta Finance.

In 2005-06, the framework was amended to establish the Debt Retirement Account (DRA) as an account within the General Revenue Fund. The amendment stipulated that DRA funds can only be used to repay accumulated debt as it matures and required the amount of financial assets in the DRA at fiscal year-end be equal to or greater than the amount of accumulated debt. Lastly, the amendment increased the amount of non-renewable resource revenue that can be used for budget purposes from $4 billion to $4.75 billion.

Finance has continued to provide assistance with respect to the Capital Plan, including advice on evaluation of Public Private Partnerships (P3s) and other alternative financing proposals. Finance also continued work on the implications and implementation of expanding the government's reporting entity. As a result, the *Government of Alberta 2005-06 Annual Report* (including the audited consolidated financial statements) included the net equity of Crown-controlled organizations in the SUCH sector (schools, universities, colleges and health authorities).

FINANCIAL INFORMATION (thousands of dollars)	**2005-06 Budget**	**2005-06 Actual**	**Variance**
Expenses for Core Business:			
Fiscal Planning and Financial Management	$62,354	$52,860	$9,494

The Fiscal Planning and Financial Management program was $9.5 million under budget mainly due to lower than budgeted statutory interest payments on corporate tax refunds of $7.1 million. Higher staff vacancies caused lower manpower expenses with contracted services costs also being lower than expected.

Goal 1 A Financially Strong, Sustainable and Accountable Government

A financially strong, sustainable and accountable provincial government is important, not only to Albertans, but also to potential investors, businesses and workers. A legislated fiscal framework that sets parameters around budgeting confirms the government's commitment to fiscal responsibility. In addition, Alberta continues to be conservative in economic and revenue forecasting. This risk management approach produces prudent decision-making.

The financial results for 2005-06 reflect this prudent risk management approach. The budget was balanced for the twelfth consecutive year in 2005-06, with a surplus of $8.7 billion. After taking into account required adjustments, the 2005-06 surplus was deposited in the Alberta Sustainability Fund. As assets in the Sustainability Fund were already above the $2.5 billion target level, the cash from the surplus was available for allocation to other balance sheet accounts: $3.6 billion was allocated to the Capital Account to help pay for capital projects in future years, $2.7 billion was saved in the Alberta Heritage Savings Trust Fund and other endowments, and $2.7 billion was retained in the Sustainability Fund.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Alberta's credit rating	AAA	AAA (2005-06)	AAA (2004-05)	AAA (2003-04)	AAA (2002-03)

Source: three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's

A province's credit rating, in part, is an indication of the financial strength of the government. The Province of Alberta provides financial and economic data to three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's. These firms evaluate this and other relevant information and then publish a credit rating based on their opinion of the credit worthiness of the Province.

Compared to British Columbia and Ontario, Alberta has the highest rating. In addition Alberta has the highest possible rating from all three major credit rating agencies. The rating agencies cite Alberta's strong financial position, the government's commitment to debt repayment, and its record of balancing budgets and meeting forecasts as the key reason for the top rating. This has resulted in Alberta's borrowing costs being the lowest of any Canadian province.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Percentage of Albertans who think they get enough information on the government's financial performance	70%	59% (2005-06)	55% (2004-05)	57% (2003-04)	63% (2002-03)

Source: Environics Research Group Limited: Focus Alberta report, and Finance.

The provincial government reports quarterly to Albertans on progress made in achieving the current year's fiscal plan. The *Government Accountability Act* sets out the reporting requirements. In 2006, Albertans were surveyed and asked the following question: "How satisfied are you with the information you receive from the Alberta government on the government's financial performance?" The 2005-06 survey results show that 59% of Albertans were satisfied with the information they received from the province on the government's financial performance. This is up from 55% in 2004-05 and below the target of 70%.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Accumulated debt* (less cash set aside for debt repayment)	Zero	Zero (2005-06)	Zero (2004-05)	$3.7 billion (2003-04)	$4.7 billion (2002-03)

* As defined by the *Fiscal Responsibility Act (FRA)*, Section 1(a)

Source: Government of Alberta, Consolidated Financial Statements for the year just ended

The level of accumulated debt is an indicator of the financial strength and long-term stability of the province. Debt burdens future generations with debt servicing costs and debt repayment obligations. Alberta's prudent fiscal management is reflected in the government's accelerated repayment of the Province's accumulated debt. As of March 31, 2006, Alberta's accumulated debt less cash set aside in the Debt Retirement Account is zero. Accumulated debt includes the outstanding consolidated debt of the General Revenue Fund, the debt of the Alberta Social Housing Corporation (net of borrowings from the General Revenue Fund) and the government's liability for school construction. The funds currently set aside in the Debt Retirement Account are locked in and will be used only to pay off the accumulated debt as it matures. This measure has been removed from the Ministry 2006-09 business plan.

Goal 2 A Fair and Competitive Provincial Tax System

Overall, Albertans pay the lowest taxes in Canada, with low taxes on income and fuel and no general sales tax. Our low tax regime leaves more money in the hands of Albertans and helps attract skilled workers to the province.

The government conducted a thorough review of the tax system in 2005-06. The review examined a wide range of issues, including our competitiveness with other jurisdictions, ongoing revenue needs, priorities for future tax cuts and whether certain taxes should be eliminated entirely. The review concluded that, for the most part, Alberta's tax system serves the province well.

The review highlighted two priorities for future tax cuts - further reductions to the general corporate income tax rate and personal tax relief that is directed primarily towards lower-and middle-income Albertans. The government acted on these priorities in *Budget 2006*. The general corporate income tax rate was reduced to 10 per cent from 11.5 per cent. On the personal side, health care insurance premium thresholds were increased and basic personal and spousal credit amounts were increased by $100 above indexation.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Provincial tax load for a family of four	Lowest in Canada	Lowest in Canada (2005-06)	Lowest in Canada (2004-05)	Lowest in Canada (2003-04)	Lowest in Canada (2002-03)

Source: Alberta Finance, Office of Budget and Management, and Tax and Revenue Administration.

Alberta has the lowest provincial tax load for the representative two-income families who have annual incomes of $60,000 and $100,000 and the second-lowest tax load for the representative single-income family earning $30,000.

In 2005-06, Alberta enacted several measures that helped taxpayers. Over $1.3 billion was provided to Albertans through the *Alberta 2005 Resource Rebate*. The Alberta Family Employment Tax Credit was enhanced by increasing payment amounts and by including more children in the program. Payment for July 2006 and January 2007 will rise to $560 for the first child, $510 for the second, $306 for the third and $102 for the fourth child. Lastly, the government began to provide assistance to senior homeowners in order to protect them from increases to school property taxes.

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR*

	One-income family with two children earning $30,000	Two-income family with two children earning $60,000	Two-income family with two children earning $100,000
Alberta	**$160**	**$3,862**	**$7,150**
British Columbia	$2,642	$5,204	$8,524
Saskatchewan	$2,305	$5,251	$9,579
Manitoba	$2,819	$6,164	$11,517
Ontario	$2,069	$4,895	$9,476
Quebec	-$1,115	$5,381	$13,939
New Brunswick	$3,153	$6,031	$11,045
Nova Scotia	$3,355	$6,206	$11,473
Prince Edward Island	$3,894	$6,974	$12,097
Newfoundland and Labrador	$4,233	$7,424	$13,450

* Includes provincial income, sales, payroll, tobacco and fuel taxes and health care insurance premiums.
Source: Alberta Finance, Interprovincial Tax and Health Care Insurance Premium Comparison, 2006; p. 142 of *Budget 2006*.

Calculations are based on the following assumptions:

- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- Health care insurance premiums are net of premium subsidies.
- In provinces that impose payroll taxes, 75% is assumed to be borne by employees and 25% by employers. The same 75/25 split is assumed for the net health care insurance premiums.
- Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 litres for two-income families.
- Tobacco tax is based on estimated consumption of 100 packs per adult per year.
- Registered Retirement Savings Plan/Registered Pension Plan (RRSP/RPP) contributions of $1,000, $7,800 and $13,500 are included in the calculation of personal income tax for the $30,000, $60,000 and $100,000 families, respectively.
- For two-income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- The children in each family are assumed to be 6 and 12 years old.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Provincial tax load on businesses	Lowest in Canada	Lowest in Canada (2005-06)	Second-lowest in Canada (2004-05)	Third-lowest in Canada (2003-04)	Third lowest in Canada (2002-03)
			Lowest in Canada (historical data was revised by Federal Department of Finance, resulting in Alberta being the lowest)	Lowest in Canada (historical data was revised by Federal Department of Finance, resulting in Alberta being the lowest)	Second-Lowest in Canada (historical data was revised by Federal Department of Finance, resulting in Alberta being the lowest)

Source: Federal Department of Finance

In 2005-06, Alberta's tax load on business was the lowest in Canada. Our closest competitor was New Brunswick, with a tax load that was 7.5 percentage points higher than Alberta's. Alberta's corporate tax regime has low corporate income tax rates and no capital taxes, payroll taxes or retail sales taxes on business purchases. Low overall taxes encourage entrepreneurs to start new businesses in Alberta or expand existing operations.

TAX LOAD ON BUSINESS*

	2005-06	2004-05
Alberta	**71.8**	**61.3**
New Brunswick	79.3	91.3
British Columbia	93.6	99.4
Ontario	98.7	108.5
Prince Edward Island	101.3	82.8
Nova Scotia	108.4	110.6
Quebec	110.3	102.1
Manitoba	113.9	120.3
Newfoundland and Labrador	145.6	91.9
Saskatchewan	241.9	205.9

Tax load relative to provincial average = 100

Note: Historical data revised by Federal Department of Finance.
* Includes business income, capital tax and insurance corporation tax revenues.
Source: Federal Department of Finance, February 2006 Third Estimate for 2005-06, Fifth Estimate for 2004-05.

Provincial tax load, or tax effort, compares actual tax revenues generated within a province to the revenue the province would generate if it taxed at national-average tax rates. Business taxes examined include business income taxes, capital taxes and insurance corporation taxes.

Each year, the provinces report their tax revenues by these categories to the federal government as part of the reporting requirements for the Equalization Program. The steps to calculate provincial tax loads are:

1. National-average tax rates are calculated by dividing total national tax revenues by the national tax base. The tax base for corporate income taxes, for example, is corporate profits.
2. The revenue the Province would generate if it taxed at national rates is equal to the national average tax rate multiplied by the provincial tax base for each of the tax categories.
3. The provincial tax load is equal to the ratio of actual provincial revenues divided by the results of the previous calculation multiplied by 100.

Goal 3 Revenue Programs are Administered Fairly, Efficiently and Effectively

Collecting taxes fairly, efficiently and effectively means that all taxpayers and claimants are treated with respect, receive excellent value for money spent on tax programs, and tax-evasion-related revenue losses are minimized.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Ratio of amounts added to net revenue to costs of administration	12:1	11.9:1 (2005-06)	9.6:1 (2004-05)	14:1 (2003-04)	12.3:1 (2002-03)

Source: Alberta Finance, Tax and Revenue Administration - CIT Browsers.

Through the revisions of returns and claims, the collection of overdue accounts, and audit activities, Tax and Revenue Administration (TRA) Division of Finance recovers tax revenues that otherwise may be lost. The calculation is based on the total additional revenue obtained through TRA's efforts, shown as a ratio of the total costs of TRA's operating budget.

The total amount added to net revenue for 2005-06 was $296.5 million and the associated costs were $24.9 million, resulting in a value added ratio of 11.9 to 1; that is, essentially, recoveries of $12.00 for every $1 spent. Reassessments resulting from two significant audits contributed to meeting this year's target.

PERFORMANCE MEASURE	2005-06 Target	Current Results
Percentage of revenue obtained through self-compliance	92%	93.7% (2005-06)

Source: TRA Monthly Status Report (IMAGIS, PILOT and Health Cost Recovery)

A new measure for 2005-08 was developed to measure the percentage of revenue obtained through self-compliance. The target for each three year period is 92%. Voluntary compliance is measured by dividing the tax revenue obtained from all sources (except revenue generated by TRA efforts, as identified above) by total revenue. This year's positive result was influenced by large voluntary revenue increases related to strong economic activity. Expanded audit coverage has also resulted in better self-compliance.

CORE BUSINESS: INVESTMENT, TREASURY AND RISK MANAGEMENT

An important objective of Alberta Investment Management (AIM) is to create portfolios that match the risk profiles and financial goals of clients' funds. Emphasis is placed on diversification and long-term investment horizon while considering the current financial needs of clients' funds. To meet these objectives, AIM has developed a wide range of investment products that can be combined to meet specific financial goals and risk tolerances. This multi-product approach is implemented on a pooled basis. Clients buy into the pools by purchasing units based on the current market value of the pools' investments. This approach is important to managing the funds efficiently and to ensuring that each client is treated fairly.

Considering the volatility of the financial markets, it is expected that the majority of the funds' returns will come from the long-term asset allocation decision. Incremental return is added through tactical asset allocation and security selection decisions. These decisions reflect the shorter-term market expectations, with consideration of both the risk and return. Both AIM and third party external manager expertise are used, ensuring the necessary specialized investment knowledge and skills are utilized in the most cost-effective manner. External managers are used primarily for investing in foreign equity markets, certain domestic equity markets, private equity, infrastructure, timberlands and absolute return strategies. Managers are chosen through a rigorous selection process and their performance is reviewed on a quarterly basis.

FINANCIAL INFORMATION (thousands of dollars)	**2005-06 Budget**	**2005-06 Actual**	**Variance**
Expenses for Core Business:			
Investment, Treasury and Risk Management	$494,101	$447,337	$46,763

As the Government's outstanding debt balances continue to decline, the cost of servicing the debt decreases. The outstanding debt balance managed by the department was $2.5 billion in 2006, down from $3.7 billion in 2005. As a result in 2005-06, the debt servicing costs of the department were $43 million lower than budgeted.

Other activity in the Investment, Treasury and Risk Management business included:

- An $11.25 million unbudgeted transfer to the Access to the Future Fund;
- A $5 million reduction in transfers from the Medical Research Endowment Fund to the Medical Research Foundation due to reduced discretionary spending by the Foundation; and
- A $5.1 million reduction in transfers from the Science and Engineering Research Endowment Fund to the Science and Engineering Research Foundation caused by delays in implementing new programs.

Goal 4 Investment Policies that Will Provide the Greatest Financial Returns, with an Acceptable Level of Risk, for Current and Future Generations of Albertans

The mission of the Alberta Heritage Savings Trust Fund ("the Heritage Fund") is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans[1].

The Heritage Fund was created in 1976 to save a portion of non-renewable resource revenue. In 1997, the Alberta government adopted a new investment strategy for the Heritage Fund. This new strategy focuses on earning the greatest long-term returns for Albertans, within an acceptable level of risk.

During the fiscal year, the government of Alberta transferred $1.75 billion into the Heritage Fund and began an inflation-proofing program that will preserve the real value of the Fund in the future.

PERFORMANCE MEASURE	2005-06 Target	Current Results*
Five-year market value rate of return of the Alberta Heritage Savings Trust Fund investment policy benchmark compared against Consumer Price Index (CPI)	Equal to or better than the Consumer Price Index plus 4.5% (target return was 6.7%)	10% (3.3% above the target) (2005-06)

* Two-year annualized market value rate of return of the Heritage Fund is 11.4% as of March 31, 2006. Refer to the *2005-06 Alberta Heritage Saving Trust Fund Annual Report* for further details.

Source: Alberta Investment Management, Finance.

As this performance measure was implemented in the fiscal year 2004-05 the two-year annualized market value rate of return of the Heritage Fund investment policy benchmark is compared to the two-year CPI plus 4.5% in the fiscal year 2005-06. In the future, the performance measure and target will be changed, based on how many years the new measure is in use until it builds up over time to five years. After five years, the performance measure and target stays fixed and will be calculated as an annualized five-year market value rate of return of the Heritage Fund investment policy benchmark compared against an annualized five-year CPI plus 4.5%.

1 Preamble to the *Alberta Heritage Savings Trust Fund Act*.

Goal 5 Superior Investment Returns Subject to Client-defined Objectives and Policies

The primary objective of AIM is to maximize long-term financial returns while controlling risk at prudent levels. Meeting this objective underscores the important balance between risk and return. The strategies outlined in the Ministry's Business Plan support this objective by applying a prudent mix of internal investment resources and external investment management firms, and by developing and implementing new products and strategies to meet client needs.

PERFORMANCE MEASURE	2005-06 Target	Current Results
Five-year weighted average market value rate of return for endowment funds compared against the weighted average policy asset mix rate of return (benchmark) for endowment funds.	Benchmark plus 0.5%	All funds exceeded target benchmark (2005-06)

As this performance measure was implemented in the fiscal year 2004-05, two-year annualized market value rate of return of each endowment fund is compared against the two-year policy asset mix rate of return for that endowment fund in the fiscal year 2005-06. In the future, the performance measure and target will be changed based on how many years the new measure is in use until it builds up over time to five years. After five years the performance measure stays fixed and will be calculated as an annualized five-year weighted average market value rate of return for each endowment fund compared against the annualized five-year weighted average policy asset mix rate of return plus 0.5% for that fund.

ENDOWMENT FUND	2005-06 Target	Current Results
Alberta Heritage Savings Trust Fund	10.5%	11.4%
Alberta Heritage Foundation for Medical Research Endowment Fund	10.8%	11.5%
Alberta Heritage Scholarship Fund	11.4%	12.2%
Alberta Heritage Science and Engineering Research Endowment Fund	9.9%	10.5%
Ultimate Heir Trust "B" Endowment	10.9%	11.4%

Source: Alberta Investment Management., Alberta Finance

Goal 6 Effective Management of Financial Assets, Liabilities and Risk

The Government of Alberta's annual cash flow must be managed to optimize returns and to ensure cash is available to meet Alberta's obligations. The Minister of Finance is also responsible for managing several billion dollars in certain assets and the remaining liabilities. Through prudent management of assets and liabilities, the Ministry works at minimizing financing costs and maximizing investment returns.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Return on Sustainability Fund	Greater than approved benchmark	Return on the Fund exceeded the benchmark by 15 basis points (2005-06)	Return on the Fund exceeded the approved benchmark (2004-05)	– (2003-04)	– (2002-03)

Source: Alberta Finance Treasury Management

The Sustainability Fund was established to protect program and capital spending from revenue volatility and the costs of emergencies, disasters and natural gas rebates under the Natural Gas Price Protection Act. The Fund receives non-renewable resource revenue above the level available for budget purposes ($4.75 billion in 2005-06) and any additional year-end surpluses, less required adjustments. When the assets of the Fund exceed $2.5 billion, they can be allocated to other balance sheet improvements such as the Heritage Savings Trust Fund, endowment funds and the Capital Account.

Withdrawals from the Sustainability Fund are allowed to offset the costs of emergencies and disasters, natural gas rebates and settlements with First Nations. Withdrawals are also permitted if resource revenue drops below $4.75 billion or if other revenue is below budget and to the extent resource revenue is over $4.75 billion.

The Sustainability Fund changed its investment strategy in the last quarter. Consequently, performance for the first ten months of the year was compared to the combined returns of the Scotia Capital 91-day Treasury Bill Index and the Scotia 365-day Treasury Bill Index. In the final portion of the year performance was compared to the Scotia Short Term All Government Bond Index. For fiscal 2005-06 the performance of the fund was greater than the return on the indices. For the period of April 1, 2005 - March 31, 2006 the total return of the Sustainability Fund was 2.64% and the return for the benchmark was 2.49%. This measure has been removed from the Ministry 2006-09 business plan.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Return on Consolidated Cash Investment Trust Fund compared to the Scotia Capital 91-day Treasury Bill Index	Benchmark plus 5 basis points*	Under-performed the target by 1 basis point (2005-06)	Greater by 9 basis points** (or under-performed by 1 basis point) (2004-05)	Greater by 15 basis points*** (2003-04)	– (2002-03)

* Basis point is 1/100th of a per cent.
** The target for 2004-05 was "exceeds the benchmark by 10 basis points"
*** Benchmark was established in 2003-04
Source: Alberta Finance Treasury Management

The Consolidated Cash Investment Trust Fund (CCITF) is a money market fund used to manage the cash balances of the Province and depositors in the fund. A benchmark for the return on the fund has been established as the Scotia Capital 91-day Treasury Bill Index. The performance target is the index plus 5 basis points. The benchmark return plus 5 basis points for 2005-06 was 2.89%. The one-year return on the CCITF was 2.88% which was 1 basis point lower than the benchmark. The slight underperformance was due to the fact that as interest rates rise there is often a time lag before the fund can buy higher rate investments.

Goal 7 Proactively Managed Risk

Alberta Finance administers a program to protect, secure and preserve public assets against risk of significant accidental loss. Through the development of a strong risk management team, the Risk Management and Insurance Division (RMI) reviewed external and internal challenges and identified the need to proactively manage risk. RMI developed and implemented a strategy to improve the awareness of risk management within government. Core activities such as loss control, risk identification, claims management and risk financing were also assessed. In addition, a review was made on the need to enhance fund coverage. The sustainability of the funding was improved through modifications to the cost allocation system and is now responsive to the loss control efforts of participants.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Cost of risk (Includes claims and insurance premiums paid and the change in claims liability from the previous year)	$6.9 million	$7.9 million (2005-06)	$6.6 million (2004-05)	$15.8 million (2003-04)	$10.3 million (2002-03)

Source: Alberta Finance, Risk Management Fund financial statements.

The scope of the assignment to our actuaries was expanded to include all financial aspects of the fund; as a result they identified previously unrecorded accrued liabilities of $2.6 million. Although the actual numbers and types of claims received were as expected in 2005-06 this caused our self-insured losses to increase by $2.6 million. This was offset by the premium costs being $1.6 million less than budgeted. The resulting cost of $7.9 million is $1 million above budget. This measure has been removed in the Ministry 2006-09 business plan.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Value of the net assets of the Risk Management Fund	Net liability $3.0 million	Net liability $6.0 million (2005-06)	Net liability $5.8 million (2004-05)	Net liability $6.2 million (2003-04)	– (2002-03)

Source: Alberta Finance, Risk Management Fund financial statements

The Alberta Risk Management Fund operates under the authority of the *Financial Administration Act*. The fund facilitates the provision of risk management services to participants by assuming general and automobile liability and the risk of property and other losses.

The previously unrecorded accrued liabilities of $2.6 million also affect the value of the net assets of the Risk Management Fund. As a result the Risk Management Fund did not achieve the reduction in the Net Liabilities which was budgeted. The Risk Management Fund's Net Liability is $6.0 million, up $150,000 from the prior year, which is $3.0 million above budget.

CORE BUSINESS: FINANCIAL SECTOR AND PENSIONS

Alberta Finance regulates the industries of pensions, insurance and financial institutions through a legislative and regulatory framework that designates the duty of regulation and oversight to Alberta Finance as well as delegated crown organizations. By balancing the interests of stakeholders, including depositors, policyholders, investors and the companies themselves, the department helps to promote an efficient, fair and competitive financial sector in Alberta.

The Department regulates the Credit Union Central Alberta Ltd. (CUCA) and provides oversight to the Credit Union Deposit Guarantee Corporation (CUDGC), a crown organization that regulates credit unions in Alberta. Through CUDGC, the repayment of all deposits held within credit unions is guaranteed and Alberta Finance ensures CUDGC is able to fulfill its guarantee to credit union depositors.

In order to protect Albertans from a loss as a result of an automobile collision, all Albertans are required to carry a minimum level of automobile insurance. Consequently, Alberta Finance regulates the insurance industry for availability and affordability of insurance to all Albertans. In addition, all insurance companies and their counterparts are regulated by the Department of Finance in terms of their ability to pay claims and fairness of insurance to all Albertans.

Alberta Finance is responsible for administration of the *Employment Pension Plans Act*. The purpose of the Act is to safeguard benefits promised to members of registered pension plans by setting minimum standards for plan funding, investments, and qualifications for benefits. In addition, Alberta Finance is responsible for providing policy advice to government for several Alberta public sector pension plans and the Canada Pension Plan. The Alberta Pensions Administration Corporation (APA) provides administrative services.

FINANCIAL INFORMATION (thousands of dollars)	**2005-06 Budget**	**2005-06 Actual**	**Variance**
Expenses for Core Business:			
Financial Sector and Pensions	$346,516	$337,396	$9,120

The Financial Sector and Pensions program was $9.1 million under budget due to lower interest costs on the debt of the Alberta Capital Finance Authority ($8.1 million). In addition, lower operating costs at the Alberta Securities Commission and Alberta Pension Administration Corporation also contributed to the positive variance, but were partially offset by higher costs experienced by the Automobile Insurance Rate Board for actuarial services and legal costs associated to defend the reform of automobile insurance. Most of the Board's spending increases are recoverable from the insurance industry.

Goal 8 Reliable and Competitive Financial and Insurance Products and Services

Albertans need to know that the financial services and products they receive are secure. Alberta Finance minimizes the risk related to financial products by regulating and providing oversight to credit unions, insurance, and loan and trust industries in Alberta.

There are currently 52 credit unions operating in Alberta through over 200 branches with assets exceeding $11 billion, 58 loan and trust corporations registered to conduct business in Alberta and 297 insurance companies licensed to conduct business in Alberta.

All provincially incorporated credit unions, loan and trust corporations, insurance companies and CUDGC met minimum solvency requirements. No financial failures were recorded in 2005-06.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Revision of *Insurance Act* respecting contracts	*Insurance Act* review completed	Review completed (2005-06)	Ongoing (2004-05)	– (2003-04)	– (2002-03)

Source: Alberta Finance, Pensions, Insurance and Financial Institutions

Alberta Finance has committed to review and rewrite the statutory provisions of the *Insurance Act* respecting insurance contracts in 2006-07. In 2005, a work plan was finalized, outlining all the work to be completed, scheduled completion dates and details of the consultation process with stakeholders. The work plan required the department to complete consultation with stakeholders by 2005-06 before proceeding with amendments to the *Act*. All stakeholders were consulted via a written submission process requesting comments and recommendations for changes to Part 5 of the *Act*. As of March 31, 2006 Alberta Finance solicited, received and analyzed stakeholder submissions, and held initial consultation meetings with industry representatives.

Based on stakeholder submissions and other relevant factors, amendments to Part 5 of the *Insurance Act* will be drafted for introduction in 2007. The target for this measure has been met. This measure has been removed in the Ministry 2006-09 business plan.

Goal 9 Quality and Competitve Financial Services Accessible to Albertans and Local Authorities

The mandate for ATB Financial is to provide financial services predominantly to Alberta residents and corporations headquartered in all areas of the province. In doing so, ATB Financial must operate using sound financial institution and business principles with the objective of earning a fair return and in a manner that is operationally independent from government. In addition to the *Alberta Treasury Branches Act* and regulations, ATB Financial must comply with statutory provisions that apply to Alberta Crown agents in general, with government policies specified by the Minister, and with management principles adopted by government.

ATB Financial is a full service financial institution serving over 600,000 Albertans through 151 branches and 135 agencies in Alberta. About 60% of its assets are in residential mortgages and consumer loans, with the balance divided between commercial, agricultural and independent business loans. ATB Financial is the largest lender to primary producers and independent business in Alberta with about $3 billion in loans outstanding to these sectors at March 31, 2006.

ATB Financial had a successful year with net income for the year ended March 31, 2006 of $199 million (compared to $187 million the previous year) and total assets growing to $17.6 billion at March 31, 2006 (up 14% from $15.4 billion in the previous year). Equity at March 31, 2006 was in excess of $1.3 billion.

The Alberta Capital Finance Authority's (ACFA) mission is to provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost, while maintaining the viability of the ACFA.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan.	Lowest	Met (in both cases compared) (2005-06)	Met (for 3 of 4 cases compared) (2004-05)	Partially met (2003-04)	Partially met (2002-03)

Source: ACFA Annual Report 2005
Note: Previous results are not comparable to the current results due to a change in methodology. The methodology has changed in the current year. The comparison is now to the OSIFA rates (5-year and 25-year) because they are the only municipality that published their rates. In the previous year MFABC and City of Toronto rates were used as comparison.

The ACFA aims to offer the lowest cost of borrowing to local authorities in Canada. The ACFA compares Alberta local authorities' indicative loan rates to the cost of borrowing by Ontario municipalities from the Ontario Strategic Infrastructure Financing Authority (OSIFA). The target was met in both cases compared.

The results reported for 2005 are based on a direct comparison of what ACFA's indicative rate would be when compared to the rate posted by OSIFA. ACFA's indicative loan rates are estimates of what the Authority would achieve under similar terms and circumstances to the actual rate used by OSIFA.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
ATB Financial return on average assets (before tax)	1.02%	1.20% (2005-06)	1.27% (2004-05)	1.24% (2003-04)	– (2002-03)

Source: ATB Financial (for further information, refer to ATB Financial Annual Report dated March 31, 2006)
Note: Return on average assets is net income for the year divided by average total assets for the year.

Return on average assets for the 2005-06 fiscal year was 1.20%, well ahead of the targeted return of 1.02%, but down from 1.27% in 2004-05. This was primarily due to a larger increase in average assets compared to the growth in net income. Overall, the financial results for ATB compare favorably to that of major Canadian banks.

Goal 10 An Effective, Efficient and Streamlined Securities Regulatory System

An effective, efficient and streamlined securities regulatory framework is key to a strong and vibrant economy. It assists in the development of strong national and local capital markets and promotes the interests of both issuers seeking capital and investors providing that capital through their investment dollars.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Inter-provincial/territorial system of securities regulation	Established	Phase 1 implemented (passport system) (2005-06)	Provincial/ Territorial Memorandum of Understanding (MOU) signed (2004-05)	– (2003-04)	– (2002-03)

Source: Alberta Finance, Policy and Strategic Planning

On April 20, 2005, Alberta passed Bill 19 amending the *Securities Act* to facilitate the creation and development of a passport system. The regulators implemented Phase 1 of the passport system through a rule (Multilateral Instrument 11-101: *Principal Regulator System*) and related rule and policy changes effective September 19, 2005. Phase 1 of the passport system gives market participants access to capital markets in multiple jurisdictions by dealing with the regulator and the law of its principal jurisdiction. Phase 1 of the passport system is limited to the areas of prospectuses, prospectus discretionary relief, continuous disclosure requirements and registration. The Provincial/Territorial Memorandum of Understanding (MOU) signed in 2004, contemplates a further expanded and stronger passport system that will include mutual recognition (operation of law) and legal delegation from another participating MOU jurisdiction (Phase 2). On March 23, 2006, Alberta introduced Bill 25, which will amend the *Securities Act* to enable Phase 2 of the passport system. Alberta, as Chair of the Council of Ministers of Securities Regulation, will continue to provide a leadership role in ensuring that the commitments in the MOU are met in a timely way. For additional information, visit the website at www.securitiescanada.org.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Highly harmonized securities legislation	Proposal developed	Continuation of development and enactment of highly harmonized securities laws (2005-06)	Provincial/ Territorial Memorandum of Understanding (MOU) signed (2004-05)	– (2003-04)	– (2002-03)

Source: Alberta Finance, Policy and Strategic Planning

On April 20, 2005, Alberta passed Bill 19 amending the *Securities Act* to harmonize Alberta's securities regulation with other provinces and territories. On March 23, 2006, Alberta introduced Bill 25, which will further harmonize Alberta's securities regulation. These amendments were developed in consultation with other provinces and territories as part of our commitment under the *Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation* (MOU). The Alberta government is continuing to lead the development of highly harmonized securities legislation. For additional information, visit the website at www.securitiescanada.org.

Goal 11 Pensions that Deliver on Promises

Pension plan members need to be assured that their benefits are secure. Finance assesses private sector pension plan compliance with legislative standards.

Finance currently monitors 1,438 private pension plans. Of these 1,234 are active, 129 are in the process of being registered, and 75 are in the process of winding up. These plans have 187,690 active members. Total contributions were approximately $1.6 billion for the year ended March 31, 2006. The market values of total assets and going concern liabilities were $18.5 billion and $15.9 billion respectively, at the same reporting date.

Changes to the *Employment Pension Plans Act* and Regulation that are expected to be proclaimed in the fall of 2006 will eliminate filing and reporting requirements for certain pension plans (those that exist exclusively for connected persons - Plans for Connected Individuals or PCIs). Therefore, the performance measure results shown below have been calculated with PCIs already excluded. We have recalculated the previous year's results on the same basis, and due to rounding, the previous result of 99% remains unchanged.

Finance provides advice to the Minister on the funding and governance of the public sector pension plans. These plans include: the Local Authorities Pension Plan; the Special Forces Pension Plan; the Public Service Pension Plan; and the Management Employees Pension Plan.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Percentage of private sector plans that meet minimum funding requirements	98%	99% (2005-06)	99% (2004-05)	99% (2003-04)	– (2002-03)

Source: Alberta Finance

Private sector pension plan sponsors must demonstrate they have adequate funding to pay out all promised benefits by filing annual information returns and having triennial actuarial valuations completed for defined benefit plans. Over the last few years, investment returns, including those for registered private sector pension plans, have experienced significant declines that have reduced the market value of assets and increased the funding requirements of plan sponsors.

The *Employment Pension Act* requires pension plan sponsors to meet minimum funding requirements by making current service contributions, to eliminate any unfunded liabilities by making special payments over a fifteen-year period and to eliminate any solvency deficits by making special payments over a five-year period. The Department's performance benchmark is that at least 98% of pension plans registered in Alberta meet these minimum-funding requirements.

This result was achieved as 99% of pension plans registered in Alberta met the minimum funding requirements outlined above. The benchmark is increasing to 99% beginning in 2006-07.

F I N A N C I A L I N F O R M A T I O N

- **FINANCIAL STATEMENTS OF THE MINISTRY AND ITS ENTITIES**
- **SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION OR BY DIRECTION OF THE MINISTER OF FINANCE**

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ANNUAL REPORT
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Consolidated Financial Statements

YEAR ENDED MARCH 31, 2006

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Finance as at March 31, 2006 and the consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the management of the Ministry. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006		2005
	Budget (Schedule 2)	Actual	Actual
	($ thousands)		
Revenues (Schedules 1 and 2)			
Income taxes	$ 7,476,950	$ 7,593,784	$ 7,012,664
Other taxes	1,615,536	1,655,782	1,612,326
Transfers from Government of Canada	4,178	4,179	4,178
Net investment income	1,352,904	2,305,477	1,786,526
Net income from commercial operations	167,126	205,922	193,380
Premiums, fees and licences	37,522	40,472	38,956
Internal government transfers	100,040	291,478	155,107
Other	53,012	53,176	49,346
	10,807,268	12,150,270	10,852,483
Expenses (Schedules 2 and 3)			
Fiscal planning and financial management	55,178	46,297	58,038
Investment, treasury and risk management	207,664	204,048	183,168
Financial sector and pensions	344,491	336,382	355,376
Ministry support services	11,391	11,270	10,584
Valuation adjustments (Schedule 4)	(12,000)	39,539	5,944
Debt servicing costs			
General government	238,000	194,897	241,487
School boards	45,247	45,236	53,011
	889,971	877,669	907,608
Net operating results	$ 9,917,297	$ 11,272,601	$ 9,944,875

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

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Cash and temporary investments (Schedule 5)	$ 5,636,540	$ 3,801,892
Accrued interest and accounts receivable (Schedule 6)	912,914	781,391
Portfolio investments (Schedule 7)	24,293,157	18,995,474
Equity in commercial enterprises (Schedule 8)	1,542,927	1,331,693
Loans and advances to government entities (Schedule 9)	1,227,166	1,301,258
Other loans and advances (Schedule 10)	4,501,834	4,204,188
Tangible capital assets (Schedule 11)	17,796	19,531
	$ 38,132,334	$ 30,435,427
Liabilities		
Bank overdraft	$ 1,655,887	$ 942,671
Accrued interest and accounts payable (Schedule 12)	1,151,822	730,221
Unmatured debt (Schedule 13)	2,538,496	3,722,250
Debt of Alberta Capital Finance Authority (Schedule 14)	4,655,963	4,267,567
Pension obligations (Schedule 15)	1,011,309	971,233
Other accrued liabilities (Schedule 16)	388,091	459,165
	11,401,568	11,093,107
Net Assets		
Net assets at beginning of year	19,342,320	14,751,089
Net operating results	11,272,601	9,944,875
Net transfer to general revenues	(3,884,155)	(5,353,644)
Net assets at end of year	26,730,766	19,342,320
	$ 38,132,334	$ 30,435,427

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

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating activities		
Net operating results	$ 11,272,601	$ 9,944,875
Non-cash items included in net operating results	(294,895)	(370,801)
	10,977,706	9,574,074
(Increase) Decrease in receivables	(131,523)	298,883
Increase (Decrease) in payables	421,601	(911)
Other	(71)	(6,482)
Cash provided by operating activities	11,267,713	9,865,564
Capital activities		
Purchase of tangible capital assets	(5,120)	(6,670)
Proceeds from disposals of tangible capital assets	-	38
Cash used for capital activities	(5,120)	(6,632)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	5,493,657	6,618,986
Portfolio investments purchased	(10,658,954)	(8,576,066)
Repayments of loans and advances	559,982	497,221
Loans and advances made	(772,162)	(569,139)
Cash used for investing activities	(5,377,477)	(2,028,998)
Financing activities		
Debt issues	5,756,145	5,909,214
Debt retirement	(6,566,123)	(7,146,210)
Grants for school construction debenture principal repayment	(69,551)	(74,969)
Net transfer to general revenues	(3,884,155)	(5,353,644)
Cash used for financing activities	(4,763,684)	(6,665,609)
Net cash provided	1,121,432	1,164,325
Cash and temporary investments, net of bank overdraft, at beginning of year	2,859,221	1,694,896
Cash and temporary investments, net of bank overdraft, at end of year	$ 3,980,653	$ 2,859,221

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

MINISTRY OF FINANCE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 AUTHORITY

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

Department of Finance (the Department)	*Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000
Alberta Heritage Foundation for Medical Research Endowment Fund	*Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000
Alberta Heritage Savings Trust Fund	*Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000
Alberta Heritage Scholarship Fund	*Alberta Heritage Scholarship Act*, Chapter A-24, Revised Statutes of Alberta 2000
Alberta Heritage Science and Engineering Research Endowment Fund	*Alberta Heritage Foundation for Science and Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2000
Alberta Risk Management Fund	*Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Provincial Judges and Masters in Chambers Reserve Fund	Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Supplementary Retirement Plan Reserve Fund	Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Alberta Capital Finance Authority	*Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000
Alberta Insurance Council	*Insurance Act*, Chapter I-3, Revised Statutes of Alberta 2000
Alberta Local Authorities Pension Plan Corporation	Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

MINISTRY OF FINANCE

Note 1 (continued)

Alberta Pensions Administration Corporation	Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000
Alberta Securities Commission	Incorporated June 1, 1995 under the *Securities Act*, Chapter S-4, Revised Statutes of Alberta 2000
Alberta Treasury Branches and its subsidiaries	*Alberta Treasury Branches Act*, Chapter A-37, Revised Statutes of Alberta 2000
Credit Union Deposit Guarantee Corporation	*Credit Union Act,* Chapter C-32, Revised Statutes of Alberta 2000
N.A. Properties (1994) Ltd.	Amalgamated corporation under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000
Gainers Inc.	Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's core businesses are:

a) fiscal planning and financial management,
b) investment, treasury and risk management,
c) regulation of financial institutions, capital market and pensions, and
d) financial services.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. These financial statements are prepared in accordance with the following accounting policies.

a) Method of Consolidation

The accounts of the Department, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Risk Management Fund, Provincial Judges and Masters in Chambers Reserve Fund, Supplementary Retirement Plan Reserve Fund, Alberta Capital Finance Authority, Alberta Insurance Council, Alberta Local Authorities Pension Plan Corporation, Alberta Pensions Administration Corporation and Alberta Securities Commission, are consolidated after adjusting them to a basis consistent with the accounting policies described below in (b). Intra-ministry transactions (revenues, expenses, capital, investing and financing transactions, and related asset and liability accounts) have been eliminated.

MINISTRY OF FINANCE

Note 3 (continued)

The accounts of Provincial agencies and other entities designated as commercial enterprises (Alberta Treasury Branches and its subsidiaries, Credit Union Deposit Guarantee Corporation, and N.A. Properties (1994) Ltd.), and the commercial Crown-controlled corporation (Gainers Inc.) are reported on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to these entities.

The reporting period of some of the Provincial agencies is other than March 31. Transactions of these agencies that have occurred during the period to March 31, 2006 and that significantly affect the consolidation have been recorded.

b) Basis of Financial Reporting

REVENUES

All revenues are reported on the accrual method of accounting. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable.

EXPENSES

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

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional government and employer contributions for service relating to prior years.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other ministries are not reflected in the consolidated statement of operations. Schedule 18 discloses information on these related party transactions.

VALUATION ADJUSTMENTS

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to guarantees, indemnities, pension obligations, loans repayable from future appropriations, and accrued employee vacation entitlements.

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

DERIVATIVE CONTRACTS

Income and expense from derivative contracts are included in investment income or debt servicing costs. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the specific assets and liabilities being hedged.

MINISTRY OF FINANCE

Note 3 (continued)

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged asset or liability and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures contracts and forward foreign exchange contracts, are recorded at fair value.

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

ASSETS

Financial assets are limited to financial claims on outside organizations and individuals and inventories held for resale at the year end.

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

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

Assets acquired by right are not included. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets (see Schedule 11). The threshold for capitalizing new systems development is $100,000 and the threshold for all other capital assets is $5,000.

LIABILITIES

Liabilities representing present obligations of the Ministry to external organizations and individuals arising from transactions or events occurring prior to the year end, are recorded to the extent when there is an appropriate basis of measurement and a reasonable estimate of the amount can be made.

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

Income or expense on interest rate swaps and forward interest rate agreements used to manage interest rate exposure is recorded as an adjustment to debt servicing costs. The exchange gain or loss on the foreign exchange contracts used to manage currency exposure is deferred and amortized over the life of the contract.

MINISTRY OF FINANCE

Note 3 (continued)

FOREIGN CURRENCY

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

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

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

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

MEASUREMENT UNCERTAINTY

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

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

Personal income tax, recorded as $6,000 million (2005 $4,648 million) in these consolidated financial statements, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income has been assumed to increase by 8.2% in 2005-06. For every percentage change in the assumed personal income growth rate, personal income tax revenue will increase or decrease by $96 million. Use of this information in the past has resulted in a number that differs, on average, from final results by plus or minus $200 million.

Corporate income tax, recorded as $2,917 million (2005 $2,364 million) in these consolidated financial statements, is also subject to measurement uncertainty due primarily to the use of the five year moving average of historical corporate income tax refund ratios in the estimation of the corporate income tax revenue balance. Use of this information in the past has resulted in a number that differs, on average, from final results by plus or minus $160 million .

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

NOTE 4 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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

MINISTRY OF FINANCE

Note 4 (continued)

Due to their short term nature, the fair values of cash and temporary investments, accrued interest, receivables, bank overdraft, payables and other accrued liabilities are estimated to approximate their book values.

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

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

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

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

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

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

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

The fair value of unmatured debt and debt held by Alberta Capital Finance Authority is an approximation of its fair value to the holder.

The fair value of derivative contracts relating to portfolio investments is included in the fair value of portfolio investments.

The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

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

MINISTRY OF FINANCE

NOTE 5 FINANCIAL RISK MANAGEMENT

a) Liability Management

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

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

The Ministry has decided, in light of the current debt reduction environment, that the most effective liability risk management strategy would be to allow existing debt instruments to mature in accordance with their terms.

b) Asset Management

The majority of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund). Income and financial returns are exposed to credit risk and price risk. Price risk is comprised of currency risk, interest rate risk and market risk. Risk is reduced through asset class diversification, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets.

The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The policy asset mix for fixed income securities is 30%. The policy mix for public equity investment is 45%. The remainder of the portfolio is invested in real estate, private equities and absolute return strategies.

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

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

MINISTRY OF FINANCE

NOTE 6 CONTRACTUAL OBLIGATIONS

($ thousands)

Obligations to outside organizations in respect of contracts entered into before March 31, 2006 amounted to $239,067 (2005 $247,105). These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

2006-07	$ 65,191
2007-08	50,406
2008-09	41,706
2009-10	30,589
2010-11	29,570
Thereafter	21,605
	$ 239,067

NOTE 7 CONTINGENT LIABILITIES

($ thousands)

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 16.

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

a) Indemnities and Guarantees

Guarantees at March 31, 2006 amounting to $5,523 (2005 $14,791) are analyzed in Schedule 17. This schedule is included with the financial statements because payments under guarantees are a statutory charge on the Ministry.

b) Contingent Liabilities of Commercial Enterprises

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2005, credit unions in Alberta held deposits totalling $10,034,758 (2004 $8,963,176), and had assets in excess of deposits.

At March 31, 2006, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $144,632 (2005 $132,708).

c) Legal Actions

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

The Ministry has a contingent liability in respect of a claim concerning the methodology used to calculate pension benefit payments under three public sector pension plans. The claim has been filed jointly and severally against the Province of Alberta and the employers participating in these pension plans. The claim specified an amount of $3,750,000 plus a provision for interest and other costs that is not calculable.

MINISTRY OF FINANCE

Note 7 (continued)

Further, the Ministry was named as a defendant in 22 (2005 19) other legal actions in addition to the one noted above. The total claimed in specific legal actions amounts to approximately $62,242 (2005 $63,056).

NOTE 8 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, liabilities, indices, interest rates or currency rates. The Ministry uses derivative contracts to enhance investment return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. Associated with these instruments are credit risks that could expose the Ministry to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit exposure to counterparties is insignificant in relation to the notional principal amount. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Ministry attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

As at March 31, 2006, the notional amount of all derivative contracts issued by the Ministry amounted to $15,775 million (2005 $9,319 million). All derivative contracts taken together had a net positive fair value of $244 million (2005 $117 million).

NOTE 9 TRUST FUNDS UNDER ADMINISTRATION

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

As at March 31, 2006, trust funds under administration were as follows:

	2006	2005
	($ thousands)	
Local Authorities Pension Plan Fund	$ 13,177,383	$ 11,121,963
Public Service Pension Plan Fund	5,276,618	4,550,299
The Workers' Compensation Board Accident Fund	3,316,853	2,606,800
Universities Academic Pension Plan Fund	2,265,342	1,928,313
Management Employees Pension Plan Fund	2,042,238	1,755,326
Special Forces Pension Plan Fund	1,346,707	1,175,418
Regional Health Authorities and various health institutions construction accounts	754,709	914,877
Other	186,247	168,870
	$ 28,366,097	$ 24,221,866

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NOTE 10 DEFINED BENEFIT PLANS

($ thousands)

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $5,795 for the year ended March 31, 2006 (2005 $4,435).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895 (2004 $268,101) and the Public Service Pension Plan reported a deficiency of $187,704 (2004 $450,068). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018 (2004 $9,404).

The Ministry also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2006, the Bargaining Unit Plan reported an actuarial deficiency of $8,699 (2005 $11,817) and the Management, Opted Out and Excluded Plan an actuarial surplus of $8,309 (2005 $3,208). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated, where necessary, to conform to 2006 presentation.

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister.

MINISTRY OF FINANCE

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REVENUES

Schedule 1

Year Ended March 31, 2006

	2006		2005
	Budget	**Actual**	**Actual**
		($ thousands)	
Income taxes			
Personal income tax	$ 5,199,124	$ 5,999,774	$ 4,648,349
Alberta 2005 Resource Rebate	-	(1,322,518)	-
Corporate income tax	2,277,826	2,916,528	2,364,315
	7,476,950	7,593,784	7,012,664
Other taxes			
Tobacco tax	735,000	719,091	697,655
Fuel tax	645,000	663,854	640,918
Insurance taxes	184,786	208,724	209,716
Tourism levy / Hotel room tax	50,000	57,815	61,021
Special broker tax	750	6,016	2,867
Financial institutions capital tax	-	282	149
	1,615,536	1,655,782	1,612,326
Transfers from Government of Canada			
Unconditional subsidy	4,178	4,179	4,178
Net investment income	1,352,904	2,305,477	1,786,526
Net income from commercial operations			
Alberta Treasury Branches	162,000	198,721	187,313
Other	5,126	7,201	6,067
	167,126	205,922	193,380
Premiums, fees, and licences			
Alberta Securities Commission	16,495	19,285	18,887
Deposit guarantee fee	16,400	15,236	15,785
Alberta Insurance Council	3,128	3,334	2,755
Other	1,499	2,617	1,529
	37,522	40,472	38,956
Internal government transfers			
Lottery Fund	99,840	291,128	154,748
Other	200	350	359
	100,040	291,478	155,107
Other			
Pensions administration	26,902	25,083	24,376
Service revenue	15,399	14,643	11,986
Insurance services	8,951	8,394	7,622
Refunds of expenditure	170	75	465
Miscellaneous	1,590	4,981	4,897
	53,012	53,176	49,346
	$ 10,807,268	$ 12,150,270	$ 10,852,483

MINISTRY OF FINANCE

BUDGET

Schedule 2

Year Ended March 31, 2006

	2005-06 Estimates	Adjustments (a)	2005-06 Budget	Authorized Supplementary	2005-06 Authorized Budget
			($ thousands)		
Revenues					
Income taxes	$ 7,476,950	$ -	$ 7,476,950	$ -	$ 7,476,950
Other taxes	1,615,536	-	1,615,536	-	1,615,536
Transfers from Government of Canada	4,178	-	4,178	-	4,178
Net investment income	1,352,904	-	1,352,904	-	1,352,904
Net income from commercial operations	167,126	-	167,126	-	167,126
Premiums, fees, and licences	37,522	-	37,522	-	37,522
Internal government transfers	100,040	-	100,040	-	100,040
Other	53,012	-	53,012	-	53,012
	10,807,268	-	10,807,268	-	10,807,268
Expenses					
Fiscal planning and financial management	55,178	-	55,178	-	55,178
Investment, treasury and risk management	207,664	-	207,664	-	207,664
Financial sector and pensions	344,491	-	344,491	-	344,491
Ministry support services	11,391	-	11,391	-	11,391
Valuation adjustments	1,000	(13,000)	(12,000)	-	(12,000)
Debt servicing costs					
General government	238,000	-	238,000	-	238,000
School boards	45,247	-	45,247	-	45,247
	902,971	(13,000)	889,971	-	889,971
Net operating results	$ 9,904,297	$ 13,000	$ 9,917,297	$ -	$ 9,917,297

(a) Adjustments consist of $13,000 for pension provisions excluded from the Estimates.

MINISTRY OF FINANCE

EXPENSES BY OBJECT

Schedule 3

	2006 Budget	2006 Actual	2005 Actual
	($ thousands)		
Salaries, wages and employee benefits	$ 80,173	$ 79,703	$ 70,339
Supplies and services	47,532	42,434	40,821
Grants	147,031	147,419	139,506
Interest and amortization of unrealized exchange gains and losses	524,360	475,976	545,219
Pension liability funding	74,700	71,780	71,002
Interest payments on corporate tax refunds	20,000	12,888	27,358
Valuation adjustments (Schedule 4)	(12,000)	39,539	5,944
Amortization of tangible capital assets	6,972	6,852	6,082
Other financial transactions	1,283	1,166	1,421
	890,051	877,757	907,692
Less recovery from support service arrangements with related parties [(a)]	80	88	84
	$ 889,971	$ 877,669	$ 907,608

(a) The Ministry provides financial, administrative and human resource services to various ministries and Offices of the Legislative Assembly. Costs incurred by the Ministry are recovered from the recipients of the services.

VALUATION ADJUSTMENTS

Schedule 4

	2006 Budget	2006 Actual	2005 Actual
	($ thousands)		
Pension provisions	$ (13,000)	$ 40,076	$ 6,541
Provision for doubtful accounts and loans	1,000	960	(581)
Provision for employee benefits other than pensions	-	534	(20)
Provision for guarantees and indemnities	-	(2,031)	4
	$ (12,000)	$ 39,539	$ 5,944

MINISTRY OF FINANCE

CASH AND TEMPORARY INVESTMENTS — Schedule 5

	2006	2005
	($ thousands)	
Fixed-income securities [(a)]		
Corporate	$ 2,658,641	$ 1,439,061
Provincial, direct and guaranteed	271,093	129,585
Pooled investment funds	17,697	14,757
Government of Canada, direct and guaranteed	-	144,666
Canadian equities		
Pooled investment funds	5,559	4,977
	2,952,990	1,733,046
Deposit in the Consolidated Cash Investment Trust Fund [(b)]	2,511,077	1,284,608
Cash in bank and in transit	172,473	784,238
	$ 5,636,540	$ 3,801,892

(a) At March 31, 2006, fixed-income securities held have an average effective market yield of 3.9% (2005 2.7%) per annum. All (2005 all) of the securities have terms to maturity of less than one year.

(b) At March 31, 2006, securities held by the Fund have an average effective market yield of 4.0% (2005 2.8%) per annum and an average duration of 120 days (2005 131 days).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE — Schedule 6

	2006	2005
	($ thousands)	
Personal income tax	$ 385,506	$ 265,486
Accrued interest and receivable from sale of investments	260,656	238,223
Lottery Fund	106,128	68,422
Fuel tax	61,056	62,529
Insurance taxes	51,973	50,083
Present value of future contributions from credit union system	28,126	38,695
Tobacco tax	7,430	6,024
Tourism levy / Hotel room tax	5,180	5,437
Financial institutions capital tax	2,176	1,965
Corporate income tax	-	37,275
Other	6,727	10,731
	914,958	784,870
Less allowance for doubtful accounts	2,044	3,479
	$ 912,914	$ 781,391

MINISTRY OF FINANCE

PORTFOLIO INVESTMENTS

Schedule 7

	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
	($ thousands)			
Fixed-income securities [(a) (b) (c)]				
Government of Canada, direct and guaranteed	$ 1,299,358	$ 1,294,533	$ 558,153	$ 559,391
Provincial, direct and guaranteed	2,613,542	2,609,756	2,218,264	2,227,197
Municipal	149,194	148,532	71,639	71,617
Corporate	4,631,375	4,611,026	3,360,124	3,356,610
Pooled investment funds	5,175,467	5,196,646	4,106,381	4,192,555
	13,868,936	13,860,493	10,314,561	10,407,370
Equities [(c)]				
Pooled investment funds				
Canadian	3,098,429	3,525,135	2,519,453	2,829,252
Foreign	5,394,916	6,016,314	4,329,856	4,616,336
Real Estate	1,288,748	1,676,405	1,137,888	1,341,128
Absolute return strategies	642,128	645,017	693,716	688,677
	10,424,221	11,862,871	8,680,913	9,475,393
	$ 24,293,157	$ 25,723,364	$ 18,995,474	$ 19,882,763

(a) The majority of the Ministry's fixed-income securities are held by the Department to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters, natural gas rebates and settlements with First Nations. At March 31, 2006, the Department held $8,671 million (2005 $6,185 million) of public fixed-income securities at cost (Fair value $8,641 million (2005 $6,191 million)). The securities held have an average effective market yield of 4.2% (2005 3.4%) per annum. 41% of the securities held had terms to maturity of less than one year.

(b) Fixed-income securities are also held by the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2006, the Heritage Fund held $4,530 million (2005 $3,661 million) of public fixed-income securities at cost (Fair value $4,548 million (2005 $3,735 million)). The securities held have an average effective market yield of 4.8% (2005 4.6%) per annum and the following term structure based on principal amount:

	2006	2005
	%	
Under 1 year	3	4
1 to 5 years	31	35
6 to 10 years	35	32
11 to 20 years	12	12
Over 20 years	19	17
	100	100

MINISTRY OF FINANCE

Schedule 7 (continued)

(c) The Heritage Fund and the endowment funds (see Note 5 (b)) use derivative contracts to enhance investment return, hedge risks, and manage asset mix.

As at March 31, 2006, the notional amount of all derivative contracts issued by the Heritage Fund amounted to $8,097 million (2005 $4,033 million). All derivative contracts taken together had a net positive fair value of $136 million (2005 $19 million) (see Note 8). The following is a summary of the notional amount and fair value of derivative contracts held by the Heritage Fund as at March 31, 2006.

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
		%			($ thousands)		
Equity index swap contracts	75	25	-	$ 2,460,014	$ 45,423	$ 1,534,324	$ 7,673
Forward foreign exchange contracts	100	-	-	1,554,419	(1,980)	935,430	13,334
Credit default swap contracts	2	5	93	1,298,187	2,984	128,430	1,384
Interest rate swap contracts	22	49	29	1,053,569	(2,391)	491,031	(12,449)
Equity index futures contracts	100	-	-	782,574	15,652	302,125	5,957
Cross-currency interest rate swap contracts	14	34	52	711,678	52,051	580,540	2,228
Bond index swap contracts	100	-	-	236,998	24,470	61,311	428
				$ 8,097,439	$ 136,209	$ 4,033,191	$ 18,555

As at March 31, 2006, the notional amount of all derivative contracts issued by the endowment funds amounted to $1,341 million (2005 $580 million). All derivative contracts taken together had a net positive fair value of $26 million (2005 $3 million) (see Note 8).

MINISTRY OF FINANCE

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 8

	2006	2005
	($ thousands)	
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,250,190	$ 1,056,810
Total revenue	994,949	861,407
Total expense	789,026	668,027
Net revenue	205,923	193,380
Net transfers to departments	-	-
Accumulated surpluses at end of year	$ 1,456,113	$ 1,250,190
Represented by		
Assets		
Loans	$ 14,846,694	$ 13,137,917
Investments	1,485,799	1,029,285
Other assets	1,438,694	1,328,589
Total assets	17,771,187	15,495,791
Liabilities		
Accounts payable	373,187	339,850
Deposits	15,870,308	13,840,032
Unmatured debt	71,579	65,719
Total liabilities	16,315,074	14,245,601
	$ 1,456,113	$ 1,250,190
Accumulated surpluses at end of year		
Alberta Treasury Branches (ATB) [a]	$ 1,348,995	$ 1,150,274
Credit Union Deposit Guarantee Corporation	105,338	98,293
N.A. Properties (1994) Ltd.	1,780	1,623
	1,456,113	1,250,190
Elimination of inter fund/agency balances	86,814	81,503
Equity in commercial enterprises at end of year	$ 1,542,927	$ 1,331,693

(a) ATB uses derivative contracts for risk management purposes and to hedge its own exposure to interest rate and exchange rate risks. As at March 31, 2006, the notional amount of all derivative contracts issued by ATB amounted to $3,229 million (2005 $2,392 million). All derivative contracts taken together had a net positive fair value of $83 million (2005 $58 million) (see Note 8). The following is a summary of the notional amount and fair value of derivative contracts held by ATB as at March 31, 2006.

	Maturity			2006		2005	
	Under 1 Year	1 to 5 Years	Over 5 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
		%			($ thousands)		
Interest rate swaps and options	58	42	-	$ 2,909,327	$ 4,529	$ 2,047,191	$ 2,516
Equity options	38	62	-	319,330	78,886	337,210	55,277
Other	100	-	-	453	4	7,273	6
				$ 3,229,110	$ 83,419	$ 2,391,674	$ 57,799

MINISTRY OF FINANCE

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 9

	2006	2005
	($ thousands)	
Agriculture Financial Services Corporation	$ 884,358	$ 899,750
Alberta Social Housing Corporation	342,584	401,284
Public Trustee	224	224
	$ 1,227,166	$ 1,301,258

OTHER LOANS AND ADVANCES

Schedule 10

	2006	2005
	($ thousands)	
Alberta Capital Finance Authority [(a)]	$ 4,390,038	$ 4,093,860
Alberta Heritage Savings Trust Fund Act	192,380	185,815
Farm Credit Stability Act	8,128	14,445
Board of Governors of the University of Alberta	909	1,292
Pratt & Whitney Canada Ltd.	295	851
University of Lethbridge Students' Union	216	422
Implemented guarantees and indemnities	138	144
Accountable advances	29	20
Judgement debts	11	47
	4,592,144	4,296,896
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	90,310	92,708
	$ 4,501,834	$ 4,204,188

(a) The fair value of the loans as at March 31. 2006 was $4,814 million (2005 $4,574 million). Municipal loans on average yield 6.4% per annum (2005 7.2%) and have the following term structure as at March 31, 2006.

	2006	2005
	%	
Under 1 year	9	12
1 to 5 years	35	36
6 to 10 years	26	25
Over 10 years	30	27
	100	100

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans and related debt (see Schedule 14) made after January 1, 2004. As at March 31, 2006, loans to Crown-controlled school boards amounted to $392,755 (2005 $464,104).

MINISTRY OF FINANCE

TANGIBLE CAPITAL ASSETS

Schedule 11

	Estimated Useful Life	2006 Cost	2006 Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
		($ thousands)			
Equipment	10 years	$ 3,507	$ 1,635	$ 1,872	$ 2,200
Computer hardware and software	5 years	41,145	26,480	14,665	16,011
Other	10 years	2,633	1,374	1,259	1,320
		$ 47,285	$ 29,489	$ 17,796	$ 19,531

ACCRUED INTEREST AND ACCOUNTS PAYABLE

Schedule 12

	2006	2005
	($ thousands)	
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	$ 146,744	$ 185,888
Corporate income tax receipts in abeyance	366,662	364,942
Corporate income tax refunds payable	263,842	-
Unearned revenue	1,137	814
Other	373,437	178,577
	$ 1,151,822	$ 730,221

MINISTRY OF FINANCE

UNMATURED DEBT

Schedule 13

	2006				2005	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years	($ thousands)			
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (c)	3.50	0.28	$ 367,027	$ 366,440	$ 1,307,481	$ 1,313,269
Fixed rate long-term (d)	6.84	4.08	2,171,469	2,423,320	2,284,613	2,601,025
	6.35	3.58	2,538,496	2,789,760	3,592,094	3,914,294
Unhedged U.S. dollar debt						
Floating rate and short-term fixed rate	-	-	-	-	130,156	122,999
Total unmatured debt	6.35	3.58	$ 2,538,496	$ 2,789,760	$ 3,722,250	$ 4,037,293

(a) Book value represents the amount the Ministry owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate swaps. Effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.

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

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

(d) Canadian dollar fixed rate debt includes $678,696 (2005 $678,696) held by the Canada Pension Plan Investment Fund.

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2006-07, and thereafter are as follows:

	($ thousands)
2006-07	$ 177,379
2007-08	273,428
2008-09	730,679
2009-10	78,342
2010-11	278,196
Thereafter to 2016-17	1,007,175
	2,545,199
Unamortized discount	6,703
	$ 2,538,496

None of the debt has call provisions (2005 none).

MINISTRY OF FINANCE

Schedule 13 (continued)

Derivative financial instruments

The Ministry uses interest rate swaps contracts to manage the interest rate risk associated with unmatured debt. Interest rate swaps involve the exchange of a series of interest payments, either at a fixed or floating rate, based upon a contractual or notional principal amount. An interest rate swap agreement based upon a notional amount involves no exchange of underlying principal. The notional amount serves as the basis for determining the exchange of interest payments. At March 31, 2006, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

The following table summarizes the Ministry's derivative portfolio and related credit exposure (see Note 8).

	2006		2005	
	Notional Amount (a)	Net Fair Value	Notional Amount	Net Fair Value
	($ thousands)			
Interest rate swaps	$ 275,000	$ 7,303	$ 825,000	$ 22,243
Cross currency interest rate swaps	-	-	173,905	17,157
	$ 275,000	$ 7,303	$ 998,905	$ 39,400

(a) Maturing 2007-08 $25,000 and 2008-09 $250,000.

MINISTRY OF FINANCE

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 14

	2006	2005
	($ thousands)	
Alberta Capital Finance Authority		
Canadian dollar fixed rate debt [(a)]	$ 4,655,963	$ 4,267,567

(a) Canadian dollar fixed rate debt includes $1,920,963 (2005 $2,204,567) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2006 (see Schedule 13 note (a)).

	2006	2005
	($ thousands)	
Fair value	$ 5,016,000	$ 4,699,000
Effective rate per annum	6.3%	6.9%

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans (see Schedule 10) and related debt made after January 1, 2004.

As at March 31, 2006, the notional amount of all derivative contracts issued in relation to debt held by the Alberta Capital Finance Authority and related loans amounted to $2,833 million (2005 $1,315 million). 20% (2005 27%) of these contracts mature within one year. All derivative contracts taken together had a net negative fair value of $9.5 million (2005 $1.6 million)(see Note 8).

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2006-07 and thereafter are as follows:

2006-07	$ 395,396
2007-08	351,383
2008-09	259,294
2009-10	380,523
2010-11	150,000
Thereafter	3,119,367
	$ 4,655,963

MINISTRY OF FINANCE

PENSION OBLIGATIONS

Schedule 15

The Ministry has pension obligations in respect of the public sector pension plans as described below:

	2006	2005
	($ thousands)	
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan [(a)]	$ 677,833	$ 656,274
Members of the Legislative Assembly Pension Plan [(b)]	49,504	46,770
Management Employees Pension Plan [(a)]	29,046	12,349
Public Service Pension Plan [(a)]	1,543	8,181
	757,926	723,574
Obligations to pension plans for employees of organizations outside the government sector		
Universities Academic Pension Plan [(c)]	190,291	184,760
Special Forces Pension Plan [(c)]	63,092	62,899
	253,383	247,659
	$ 1,011,309	$ 971,233

(a) The Ministry administers three defined benefit pension plans for substantially all of the government's employees. The three plans are the Public Service Management (Closed Membership), Management Employees and the Public Service pension plans. An employee can be a member of only one plan at a time. The Ministry also administers the Supplementary Retirement Plan for Public Service Managers.

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

For Management Employees, the unfunded liability as determined by actuarial funding valuations as at December 31, 2001 and 2004 is being financed by special payments totalling 7.2% of pensionable earnings shared between employees and employers until December 31, 2015. The special payments will decrease to 5.1% of pensionable earnings on January 1, 2016 and continue until December 31, 2018 as required to eliminate the unfunded liability on or before that date. Current services costs are funded by employers and employees. As sponsor of the Plan, the Ministry records the Government's share of the employer's estimated accrued benefit liability. Current services costs are funded by employers and employees.

For Public Service, the unfunded liability as determined by an actuarial valuation as at December 31, 2002 is being financed by a special payment of 2.76% of pensionable earnings shared equally between employees and employers as required to eliminate the unfunded liability over the period ending on or before December 31, 2017. As sponsor of the Plan, the Ministry records the Government's share of the employer's estimated accrued benefit liability. Current service costs are funded by employers and employees.

(b) The Ministry has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date.

MINISTRY OF FINANCE

Schedule 15 (continued)

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

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

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

Pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services. The assumptions used in the valuations were adopted after consultation among the pension plan boards, the government and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the related employee groups.

Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan		Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
			%	%	%
Public Service Management (Closed Membership) Pension Plan	**	December 31, 2002	3.0*	3.0*	6.0*
Management Employees Pension Plan		December 31, 2004	4.0	2.75	6.75
Public Service Pension Plan	**	December 31, 2002	3.75	3.25	7.0
Members of the Legislative Assembly Pension Plan		March 31, 2003	3.0*	3.0*	6.0*
Universities Academic Pension Plan		December 31, 2004	4.0	2.75	6.75
Special Forces Pension Plan		December 31, 2004	3.75	3.25	7.0

* Inflation rate and investment rate of return used in extrapolation as at March 31, 2006 were 2.75% and 5% respectively.

** Actuarial valuations as at December 31, 2005 are in progress and will be completed in 2006-07.

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred losses of $99.4 million (2005 $354.9 million), unfunded liabilities were extrapolated to March 31, 2006.

A separate pension plan fund is maintained for each pension plan except for the Members of the Legislative Assembly plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

MINISTRY OF FINANCE

OTHER ACCRUED LIABILITIES

Schedule 16

	2006	2005
	($ thousands)	
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 381,107	$ 450,657
Guarantees and indemnities (Schedule 17)	470	2,550
Vacation entitlements	6,182	5,625
Other	332	333
	$ 388,091	$ 459,165

GUARANTEES (a)

Schedule 17

	2006	2005	Expiry Date
	($ thousands)		
Farm Credit Stability Act (b)	$ 4,603	$ 15,175	2011
University of Calgary	934	1,004	2016
Centre for Engineering Research Inc.	273	792	2007
Rural utilities loans	183	370	2015
	5,993	17,341	
Less estimated liability (Schedule 16)	470	2,550	
	$ 5,523	$ 14,791	

(a) Authorized loan guarantee limits decline as guaranteed loans are repaid.

The lender takes appropriate security prior to issuing a loan to the borrower which is guaranteed by the Province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower and typically range from prime to prime plus two per cent.

No new program guarantees are being issued under the following Acts: *Farm Credit Stability Act and the Rural Utilities Act.*

(b) The expiry date shown is the latest expiry date for guaranteed loans under the program.

MINISTRY OF FINANCE

RELATED PARTY TRANSACTIONS

Schedule 18

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

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

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

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

	2006	2005
	($ thousands)	
Revenues		
Transfers	$ 291,478	$ 155,107
Interest from loans and advances to government entities	80,364	81,377
Interest from loans and advances to school boards	45,966	53,590
Charges for services	7,697	6,743
	$ 425,505	$ 296,817
Expenses		
Debt servicing costs - school boards debt	$ 45,236	$ 53,011
Transfers	34,156	23,029
Cost of services	6,181	6,106
	$ 85,573	$ 82,146
Assets		
Accounts receivable	$ 107,011	$ 69,468
Accrued interest receivable	19,641	18,683
Loans and advances to government entities	1,226,942	1,301,034
Loans and advances to school boards	392,755	464,104
	$ 1,746,349	$ 1,853,289
Liabilities		
Other accrued liabilities - future funding of school boards debt	$ 381,107	$ 450,657

The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

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

	2006	2005
	($ thousands)	
Expenses - incurred by others		
Accommodation and other costs	$ 3,378	$ 2,965
Legal services	2,123	2,059
	$ 5,501	$ 5,024

DEPARTMENT OF FINANCE
Financial Statements
YEAR ENDED MARCH 31, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Department of Finance as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the management of the Department. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

DEPARTMENT OF FINANCE

STATEMENT OF OPERATIONS

Year Ended March 31, 2006

	2006 Budget (Schedule 4)	2006 Actual	2005 Actual
	($ thousands)		
Revenues (Schedule 1)			
Internal government transfers	$ 565,813	$ 1,306,425	$ 1,246,651
Income taxes	7,476,950	7,593,784	7,012,664
Other taxes	1,615,536	1,655,782	1,612,327
Transfers from Government of Canada	4,178	4,179	4,178
Investment income	310,402	410,097	263,750
Fees, permits and licences	17,899	17,853	17,314
Other	21,948	23,343	20,383
	10,012,726	11,011,463	10,177,267
Expenses - directly incurred (Note 2 (B) and Schedule 21)			
Voted (Schedules 3 and 5)			
Ministry support services	11,403	11,282	10,585
Fiscal Planning and Financial Management	35,371	33,585	30,840
Investment, Treasury and Risk Management	23,441	21,682	18,340
Financial Sector and Pensions	5,020	6,159	5,950
Transfer to the Alberta Heritage Savings Trust Fund	-	1,000,000	-
Debt servicing costs - school construction	45,247	45,236	53,011
	120,482	1,117,944	118,726
Statutory (Schedules 3 and 5)			
Internal Government Transfers to:			
Access to the Future Fund	-	11,250	-
Alberta Heritage Foundation for Medical Research Endowment Fund	200,000	200,000	-
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	250,000	750,000	-
Alberta Heritage Scholarship Fund	-	250,000	-
Alberta Heritage Science and Engineering Research Endowment Fund	-	100,000	-
Farm credit stability program	170	149	292
Interest payments on corporate tax refunds	20,000	12,888	27,358
Pension liability funding	74,700	71,846	71,045
Debt servicing costs	238,000	194,898	243,072
Valuation adjustments (Schedule 6)	(12,000)	39,539	5,944
	770,870	1,630,570	347,711
	891,352	2,748,514	466,437
Net Operating Results	$ 9,121,374	$ 8,262,949	$ 9,710,830

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

DEPARTMENT OF FINANCE

STATEMENT OF FINANCIAL POSITION

As At March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Cash and temporary investments (Schedule 8)	$ 5,024,508	$ 3,446,156
Accounts and accrued interest receivable (Schedule 9)	907,472	775,508
Portfolio investments (Schedule 10)	8,671,154	6,185,113
Loans and advances to government entities (Schedule 11)	1,146,239	1,212,918
Other loans, advances and investments (Schedule 12)	11,401	18,699
Tangible capital assets (Schedule 13)	9,365	8,853
	$ 15,770,139	$ 11,647,247
Liabilities		
Bank overdraft	$ 1,655,887	$ 942,671
Accounts and accrued interest payable (Schedule 14)	743,469	498,005
Unmatured debt (Schedule 15)	2,538,496	3,722,250
Pension obligations (Schedule 16)	1,011,309	971,233
Other accrued liabilities (Schedule 17)	387,020	457,924
	6,336,181	6,592,083
Net Assets		
Net assets at beginning of year	5,055,164	697,978
Net operating results	8,262,949	9,710,830
Net transfer to general revenues	(3,884,155)	(5,353,644)
Net assets at end of year	9,433,958	5,055,164
	$ 15,770,139	$ 11,647,247

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

DEPARTMENT OF FINANCE

STATEMENT OF CASH FLOWS

Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating transactions		
Net operating results	$ 8,262,949	$ 9,710,830
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	49,685	34,196
Net income on investments valued at equity	(156)	(184)
Amortization of tangible capital assets (Schedule 3)	2,892	2,695
Valuation adjustments (Schedule 6)	39,539	5,944
	8,354,909	9,753,481
(Increase) decrease in receivables	(131,427)	373,611
Increase in payables	244,111	16,500
Cash provided by operating transactions	8,467,593	10,143,592
Capital transactions		
Purchase of tangible capital assets (Schedule 5)	(3,404)	(2,444)
Proceeds from disposal of tangible capital assets	-	35
Cash used for capital transactions	(3,404)	(2,409)
Investing transactions		
Disposals of portfolio investments	4,194,126	3,526,809
Portfolio investments purchased	(6,724,784)	(5,660,256)
Repayments of loans and advances		
Government entities	1,920,294	1,999,464
Other	7,764	13,454
Loans and advances		
Government entities	(1,851,385)	(1,966,713)
Other	(8)	(16)
Cash used for investing transactions	(2,453,993)	(2,087,258)
Financing transactions		
Debt issues	4,542,165	5,258,730
Debt retirement	(5,733,519)	(6,736,619)
Voted non-budgetary disbursements to settle obligations (Schedule 5)	(69,551)	(74,969)
Net transfer to general revenues	(3,884,155)	(5,353,644)
Cash used for financing transactions	(5,145,060)	(6,906,502)
Net cash provided	865,136	1,147,423
Cash and temporary investments, net of bank overdraft, at beginning of year	2,503,485	1,356,062
Cash and temporary investments, net of bank overdraft, at end of year	$ 3,368,621	$ 2,503,485

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

DEPARTMENT OF FINANCE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 ($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

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

The Department's core businesses are fiscal planning and financial management; regulation of provincial financial institutions; pensions policy, regulation and administration; financial services; long-term revenue and investment policy; manage revenue programs; manage and invest financial assets; manage risk associated with liability exposure and loss of public assets; and regulation and fostering of Alberta's capital market.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments.

(a) Reporting Entity

The reporting entity is the Department, which is part of the Ministry of Finance and for which the Minister of Finance is accountable. Other entities reporting to the Minister of Finance are the Alberta Heritage Savings Trust Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Risk Management Fund, the Alberta Securities Commission, the Provincial Judges and Masters in Chambers Reserve Fund, the Supplementary Retirement Plan Reserve Fund, the Alberta Capital Finance Authority, the Alberta Insurance Council, the Alberta Pensions Administration Corporation, the Alberta Local Authorities Pension Plan Corporation, the Alberta Treasury Branches and its subsidiaries, the Credit Union Deposit Guarantee Corporation, N.A. Properties (1994) Ltd. and Gainers Inc. The activities of these organizations are not included in these financial statements.

The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of operations for which the Minister of Finance is accountable.

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

DEPARTMENT OF FINANCE

Note 2 (continued)

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual method of accounting. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable.

Internal Government Transfers

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

Dedicated Revenue Initiatives

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiatives.

Expenses

Directly Incurred

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

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

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- Valuation adjustments, which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to guarantees, indemnities, pension obligations, loans repayable from future appropriations, and accrued employee vacation entitlements.
- Grants are recognized when authorized and eligibility criteria are met.

DEPARTMENT OF FINANCE

Note 2 (continued)

Incurred by Others

Services contributed by other entities in support of the Department's operations are disclosed in Schedule 21.

Assets

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

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

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

Investments are recorded at cost, except for investments in wholly owned provincial corporations operating as commercial enterprises which are valued on an equity basis. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Tangible capital assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100 and the threshold for all other tangible capital assets is $5.

Liabilities

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

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

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

DEPARTMENT OF FINANCE

Note 2 (continued)

Foreign Currency

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

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

Exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Net Assets

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

Measurement Uncertainty

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

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes and provisions for pensions (see schedule 16). The nature of the uncertainty in these items arises from several factors such as the effect on accrued taxes of the verification of taxable income and the effect on accrued pensions obligations of actual experience compared to assumptions.

Personal income tax revenue, totaling $5,999,774 (2005 $4,648,349), see schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 8.2%. For every change in personal income growth of plus or minus 1%, personal income tax revenue will change by $96 million. Use of this information in the past has resulted in a number that differs, on average, from final results by plus or minus $200 million.

Corporate income tax revenue, totaling $2,916,528 (2005 $2,364,315), see schedule 1, is subject to measurement uncertainty due primarily to the use of five year moving average of historical corporate income tax refund ratios in the determination of corporate income tax revenue. Use of this information in the past has resulted in a number that differs, on average, from final results by plus or minus $160 million.

DEPARTMENT OF FINANCE

Note 2 (continued)

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

NOTE 3 VALUATIONS OF FINANCIAL ASSETS AND LIABILITIES

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

Because of the short term nature of these instruments, the fair values of cash and temporary investments, accrued interest, receivables, bank overdraft, payables and other accrued liabilities are estimated to approximate their book values.

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

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

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

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

NOTE 4 RISK MANAGEMENT

(a) Liability Management

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

The Department has decided in light of the current debt reduction environment, that the most effective liability risk management strategy would be to allow existing debt instruments to mature in accordance with their terms.

DEPARTMENT OF FINANCE

Note 4 (continued)

(b) Asset Management

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

NOTE 5 CONTRACTUAL OBLIGATIONS

(a) *Credit Union Act*

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act*, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province, through the Department, will ensure that this obligation of the Corporation is carried out. As at December 31, 2005 credit unions in Alberta held deposits totaling $10,034,758 (2004 $8,963,176). Substantial assets are available from credit unions to safeguard the Department from risk of loss arising from its potential obligation under the Act.

(b) Other Committment

	2006	2005
	($ thousands)	
Service contracts	$ 6,048	$ 4,539
Long-term leases	198	204
	$ 6,246	$ 4,743

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

	Service Contracts	Leases	Total
		($ thousands)	
2007	$ 5,052	$ 66	$ 5,118
2008	726	66	792
2009	177	66	243
2010	93	-	93
	$ 6,048	$ 198	$ 6,246

DEPARTMENT OF FINANCE

NOTE 6 CONTINGENT LIABILITIES

Set out below are details of contingencies resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 17.

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

(a) Indemnities and Debenture, Deposit and Loan Guarantees

Guaranteed liabilities at March 31, 2006 of government entities amounting to $20,948,682 (2005 $18,588,537), and other guarantees amounting to $5,523 (2005 $14,791) are analyzed in Schedules 18 and 19 respectively. These schedules are included with the financial statements because payments under debenture and loan guarantees are a statutory charge on the Department.

Payments under the guarantee of Alberta Treasury Branches deposits would also be made by the Department, under authority of a supply vote.

(b) Legal Actions

At March 31, 2006, the Department is jointly or separately named as a defendant in twenty-three legal claims (2005 twenty legal claims). Of the twenty-three claims, nineteen have specified amounts totaling approximately $3,812,242. One jointly named claim for $3,750,000 concerns the methodology used to calculate pension benefits under three public service pension plans. Four claims have no specified amount. In 2005 nineteen claims had specified amounts totaling approximately $3,813,056 including one jointly named claim for $3,750,000 and one had no specified amount. Ten claims totaling $2,485 (2005 seven totaling $1,886) are covered by the Alberta Risk Management Fund. The resulting loss, if any, from these claims cannot be determined.

In addition, at March 31, 2006, some taxes assessed were under objection and some were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 7 TRUST FUNDS UNDER ADMINISTRATION

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

DEPARTMENT OF FINANCE

Note 7 (continued)

As at March 31, 2006, trust funds under administration were as follows:

	2006	2005
	($ thousands)	
Local Authorities Pension Plan Fund	$ 13,177,383	11,121,963
Public Service Pension Plan Fund	5,276,618	4,550,299
The Workers' Compensation Board Accident Fund	3,316,853	2,606,800
Universities Academic Pension Plan Fund	2,265,342	1,928,313
Management Employees Pension Plan Fund	2,042,238	1,755,326
Special Forces Pension Plan Fund	1,346,707	1,175,418
Regional Health Authorities and various health institutions construction accounts	754,709	914,877
Other	186,247	168,870
	$ 28,366,097	24,221,866

NOTE 8 DEFINED BENEFIT PLANS

The Department sponsors and participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan (see Schedule 16 (c)). The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense of these plans is equivalent to the annual contributions of $4,385 for the year ended March 31, 2006 (2005 $3,266).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895 (2004 $268,101) and the Public Service Pension Plan reported a deficiency of $187,704 (2004 $450,068). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018 (2004 $9,404).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2006, the Bargaining Unit Plan reported an actuarial deficiency of $8,699 (2005 $11,817) and the Management, Opted Out and Excluded Plan an actuarial surplus of $8,309 (2005 $3,208). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 9 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

NOTE 10 APPROVALS OF FINANCIAL STATEMENTS

The Senior Financial Officer and the Deputy Minister approved these financial statements.

DEPARTMENT OF FINANCE

SCHEDULES TO THE FINANCIAL STATEMENTS

REVENUE

Schedule 1

	2006		2005
	Budget	Actual	Actual
		($ thousands)	
Internal government transfers			
Alberta Heritage Savings Trust Fund	$ 465,973	$ 1,015,296	$ 1,091,903
Lottery Fund	99,840	291,129	154,748
	565,813	1,306,425	1,246,651
Income taxes			
Personal income tax	5,199,124	5,999,774	4,648,349
Alberta 2005 Resource rebates	-	(1,322,518)	-
Corporate income tax	2,277,826	2,916,528	2,364,315
	7,476,950	7,593,784	7,012,664
Other taxes			
Tobacco tax	735,000	719,091	697,656
Fuel tax	645,000	663,854	640,918
Insurance taxes	184,786	208,724	209,716
Tourism Levy & hotel room tax	50,000	57,815	61,021
Financial institutions capital tax	-	282	149
Special broker tax	750	6,016	2,867
	1,615,536	1,655,782	1,612,327
Transfers from Government of Canada			
Unconditional subsidy	4,178	4,179	4,178
Investment income			
Farm credit stability program	1,019	1,572	2,245
Other	309,383	408,525	261,505
	310,402	410,097	263,750
Fees, permits and licences			
Deposit guarantee fee	16,400	15,236	15,785
Insurance companies, agents and brokers	250	264	246
Other	1,249	2,353	1,283
	17,899	17,853	17,314
Other			
Recovery of expense (Schedule 2)	19,615	18,117	15,330
Refunds of expenditure	170	75	465
Sale of assets	-	12	10
Miscellaneous	2,163	5,139	4,578
	21,948	23,343	20,383
	$ 10,012,726	$ 11,011,463	$ 10,177,267

DEPARTMENT OF FINANCE

DEDICATED REVENUE INITIATIVES

Schedule 2

	Authorized Dedicated Revenues	2006 Actual Dedicated Revenues	(Shortfall) (a)/ Excess
		($ thousands)	
Investment, treasury and risk management	$ 19,390	$ 17,904	$ (1,486)
Fiscal planning and financial management	225	213	(12)
	$ 19,615	$ 18,117	$ (1,498)

Following is a brief description of each dedicated revenue initiative:

- Investment, treasury and risk management recovers the costs of managing various public sector investment funds and costs of risk management and insurance services.
- Fiscal planning and financial management recovers the costs associated with administration of the payment in lieu of tax program, related to municipally owned utilities, from the Power Pool of Alberta Balancing Pool.

The revenue of each initiative is reported in the statement of operations.

a) The shortfall is deducted from the current year's authorized budget, as disclosed in Schedules 4 and 5 the financial statements.

DEPARTMENT OF FINANCE

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

Schedule 3

	2006 Budget	2006 Actual	2005 Actual
	($ thousands)		
Voted			
Salaries, wages and employee benefits	$ 48,397	$ 47,711	$ 40,651
Supplies and services	22,899	21,934	21,319
Grants	45,269	45,288	53,033
Financial transactions and other	1,113	207	1,113
Transfers to the Alberta Heritage Savings Trust Fund	-	1,000,000	-
Amortization of tangible capital assets	2,884	2,892	2,695
Total voted expenses before recoveries	120,562	1,118,032	118,811
Less recovery from support service arrangements with related parties (a)	80	88	85
	$ 120,482	$ 1,117,944	$ 118,726
Statutory			
Internal Government Transfers to:			
Access to the Future Fund	$ -	$ 11,250	$ -
Alberta Heritage Foundation for Medical Research Endowment Fund	200,000	200,000	-
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	250,000	750,000	-
Alberta Heritage Scholarship Fund	-	250,000	-
Alberta Heritage Science and Engineering Research Endowment Fund	-	100,000	-
Farm credit stability program	170	149	292
Interest payments on corporate tax refunds	20,000	12,888	27,358
Pension liability funding	74,700	71,846	71,045
Debt servicing costs	238,000	194,898	243,072
Valuation adjustments (Schedule 6)	(12,000)	39,539	5,944
	$ 770,870	$ 1,630,570	$ 347,711

a) The Department provides financial, administrative and human resource services to various departments and Offices of the Legislative Assembly. Costs incurred by the Department are recovered from the recipients of the services.

DEPARTMENT OF FINANCE

BUDGET

Schedule 4

	2005-06 Estimates	Adjustments (a)	2005-06 Budget	Authorized Supplementary Estimates (b)	2005-06 Authorized Budget
			($ thousands)		
Revenues					
Internal government transfers	$ 565,813	$ -	$ 565,813	$ -	$ 565,813
Income taxes	7,476,950	-	7,476,950	-	7,476,950
Other taxes	1,615,536	-	1,615,536	-	1,615,536
Transfers from Government of Canada	4,178	-	4,178	-	4,178
Investment income	310,402	-	310,402	-	310,402
Fees, permits and licences	17,899	-	17,899	-	17,899
Other	21,948	-	21,948	-	21,948
	10,012,726	-	10,012,726	-	10,012,726
Expenses - Directly Incurred					
Voted					
Ministry support services	11,403	-	11,403	-	11,403
Fiscal Planning and Financial Management	35,371	-	35,371	-	35,371
Investment, Treasury and Risk Management	23,441	-	23,441	-	23,441
Financial Sector and Pensions	5,020	-	5,020	-	5,020
Transfer to the Alberta Heritage Savings Trust Fund	-		-	1,000,000	1,000,000
Debt servicing costs - school construction	45,247	-	45,247	-	45,247
Dedicated revenue shortfall (Schedule 2)	-	(1,498)	(1,498)	-	(1,498)
	120,482	(1,498)	118,984	1,000,000	1,118,984
Statutory					
Transfer to the Alberta Heritage Foundation for Medical Research Endowment Fund	200,000	-	200,000	-	200,000
Transfer to the Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	250,000	-	250,000	-	250,000
Farm credit stability program	170	-	170	-	170
Interest payments on corporate tax refunds	20,000	-	20,000	-	20,000
Pension liability funding	74,700	-	74,700	-	74,700
Debt servicing costs	238,000	-	238,000	-	238,000
Valuation adjustments (Schedule 6)	1,000	(13,000)	(12,000)	-	(12,000)
	783,870	(13,000)	770,870	-	770,870
	904,352	(14,498)	889,854	1,000,000	1,889,854
Net operating results	$9,108,374	$ 14,498	$ 9,122,872	$ (1,000,000)	$ 8,122,872
Equipment/inventory purchases	$ 2,899	$ -	$ 2,899	$ -	$ 2,899

a) Adjustments consist of $1,498 for dedicated revenue shortfall and $13,000 for pension provisions excluded from the Estimates.

b) Supplementary Estimates were approved on March 16, 2006.

DEPARTMENT OF FINANCE

COMPARISON OF EXPENSES, EQUIPMENT/INVENTORY PURCHASES AND DISBURSEMENTS BY ELEMENT TO AUTHORIZED BUDGET

Schedule 5

	2005-06 Budget	Authorized Supplementary Estimates (a)	2005-06 Authorized Budget	2005-06 Actual Expense (b)	Unexpended (Over Expended)
			($ thousands)		
Voted Expenses and Equipment/ Inventory Purchases					
Program Ministry Support Services					
- Operating Expense	$ 11,403	$ -	$ 11,403	$ 11,282	$ 121
- Equipment/Inventory Purchase	150	-	150	311	(161)
	11,553	-	11,553	11,593	(40)
Program - Fiscal Planning and Fiscal Management					
Tax and Revenue Administration					
- Operating Expense	25,952	-	25,952	24,944	1,008
- Equipment/Inventory Purchases	1,159	-	1,159	1,721	(562)
- Recovery of equipment purchases	-	-	-	(609)	609
Office of Budget and Management					
- Operating Expense	9,419	-	9,419	8,641	778
	36,530	-	36,530	34,697	1,833
Program - Investment, Treasury and Risk Management					
Investment Management					
- Operating Expense	12,010	-	12,010	10,958	1,052
Investment Administration					
- Operating Expense	7,321	-	7,321	7,108	213
- Equipment/Inventory Purchases	1,560	-	1,560	1,372	188
Internal Audit					
- Operating Expense	500	-	500	330	170
Treasury Management					
- Operating Expense	2,333	-	2,333	2,032	301
- Equipment/Inventory Purchases	30	-	30	-	30
Risk Management and Insurance					
- Operating Expense	1,277	-	1,277	1,254	23
	25,031	-	25,031	23,054	1,977
Program - Financial Sector and Pensions					
- Operating Expense	5,020	-	5,020	6,159	(1,139)
Program - Transfer to the Alberta Heritage Savings Trust Fund					
- Operating Expense	-	1,000,000	1,000,000	1,000,000	-
Debt Servicing					
Grants for School Construction					
Debenture Interest Payments	45,247	-	45,247	45,236	11
	123,381	1,000,000	1,123,381	1,120,739	2,642
Dedicated Revenue Shortfall (Schedule 2)	(1,498)	-	(1,498)	-	(1,498)
	121,883	1,000,000	1,121,883	1,120,739	1,144
Summary					
Program Operating Expense	$ 118,984	$ 1,000,000	$ 1,118,984	$ 1,117,944	$ 1,040
Equipment/Inventory Purchases	2,899	-	2,899	3,404	(505)
Recovery for equipment purchases	-	-	-	(609)	609
	$ 121,883	$ 1,000,000	$ 1,121,883	$ 1,120,739	$ 1,144

DEPARTMENT OF FINANCE

COMPARISON OF EXPENSES, EQUIPMENT/INVENTORY PURCHASES AND DISBURSEMENTS BY ELEMENT TO AUTHORIZED BUDGET

Schedule 5 (cont'd)

	2005-06 Budget	Authorized Supplementary Estimates (a)	2005-06 Authorized Budget	2005-06 Actual Expense (b)	Unexpended (Over Expended)
			($ thousands)		
Statutory Expenses					
Internal Government Transfers to:					
Access to the Future Fund	$ -	$ -	$ -	$ 11,250	$ (11,250)
Alberta Heritage Foundation for Medical Research Endowment Fund	200,000	-	200,000	200,000	-
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	250,000	-	250,000	750,000	(500,000)
Alberta Heritage Scholarship Fund	-	-	-	250,000	(250,000)
Alberta Heritage Science and Engineering Research Endowment Fund	-	-	-	100,000	(100,000)
Farm credit stability program	170	-	170	149	21
Interest payments on corporate tax refunds	20,000	-	20,000	12,888	7,112
Pension liability funding	74,700	-	74,700	71,846	2,854
Debt servicing costs	238,000	-	238,000	194,898	43,102
Valuation adjustments (Schedule 6)	(12,000)	-	(12,000)	39,539	(51,539)
	$ 770,870	$ -	$ 770,870	$ 1,630,570	$ (859,700)
Voted Non-Budgetary Disbursements					
Grants for school construction debenture principal repayment	$ 69,651	$ -	$ 69,651	$ 69,551	$ 100

a) Supplementary Estimates were approved in March 2006.

b) Includes achievement bonus of $3,228.

VALUATION ADJUSTMENTS

Schedule 6

	2006 Budget	2006 Actual	2005 Actual
		($ thousands)	
Pension provisions	$ (13,000)	$ 40,076	$ 6,541
Provision for doubtful accounts and loans	1,000	960	(581)
Provision for employee benefits other than pensions	-	534	(20)
Provision for guarantees and indemnities	-	(2,031)	4
	$ (12,000)	$ 39,539	$ 5,944

DEPARTMENT OF FINANCE

SALARY AND BENEFITS DISCLOSURE

Schedule 7

	2006				2005
	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	Total	Total
Senior Officials					
Deputy Minister of Finance(4)	$ 191,777	$ 65,962	$ 40,866	$ 298,605	$ 313,550
Controller/Acting Controller (4)(5)(6)	150,321	14,525	33,671	198,517	174,586
Executives					
Assistant Deputy Minister - Pensions, Insurance and Financial Institutions	148,584	63,343	33,018	244,945	197,724
Assistant Deputy Minister - Revenue(5)	100,191	31,785	22,410	154,386	181,510
Chief Investment Officer(7)	257,564	211,147	50,942	519,653	444,130
Chief Administrative Officer	148,588	22,337	33,757	204,682	190,897
Executive Director, Treasury Management	148,584	22,337	33,304	204,225	180,132
Director, Human Resources	123,464	18,287	28,690	170,441	152,784
Executive Director, Strategic and Business Services	123,464	18,287	28,645	170,396	153,911

1) Base salary includes regular base pay.
2) Other cash benefits include bonuses, vacation payouts and lump sum payments.
3) Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pensions, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.
4) Automobile provided, no dollar amount included in other non-cash benefits.
5) The position was occupied by two individuals during the year.
6) Acting Controller occupied position starting February 27, 2006.
7) Base salary includes regular base pay and market modifier.

CASH AND TEMPORARY INVESTMENTS

Schedule 8

	2006	2005
	($ thousands)	
Fixed-income securities (a)		
Corporate	$ 2,658,641	$ 1,439,061
Provincial, direct and guaranteed	261,141	129,585
Alberta, guaranteed	9,952	-
Government of Canada, direct and guaranteed	-	144,666
	2,929,734	1,713,312
Deposit in Consolidated Cash Investment Trust Fund (b)	1,922,301	948,606
Cash in bank and in transit	172,473	784,238
	$ 5,024,508	$ 3,446,156

a) Fixed-income securities have an average effective yield of 3.9% (2005 2.7%) per annum. All of the securities have terms to maturity of less than one year (2005 less than one year).
b) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annnum (2005: 2.79%). 86% of the securities in the Fund mature within one year (2005: 84%).

DEPARTMENT OF FINANCE

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

Schedule 9

	2006	2005
	($ thousands)	
Personal income tax	$ 385,506	$ 265,486
Lottery Fund	106,128	68,422
Accrued interest receivable	93,736	77,007
Alberta Treasury Branches	86,814	81,503
Alberta Heritage Savings Trust Fund	77,684	62,388
Fuel tax	61,056	62,529
Insurance corporations tax	51,973	50,083
Present value of future contributions from credit union system	28,126	38,695
Tobacco tax	7,430	6,024
Tourism Levy & Hotel room tax	5,180	5,437
Other	3,137	5,757
Financial institutions capital tax	2,176	1,965
Swap accruals	535	16,403
Corporate income tax	-	37,275
	909,481	778,974
Less allowance for doubtful accounts	2,009	3,466
	$ 907,472	$ 775,508

PORTFOLIO INVESTMENTS

Schedule 10

	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
	($ thousands)			
Fixed-income securities (a)				
Corporate	$ 4,631,375	$ 4,611,026	$ 3,360,124	$ 3,356,610
Provincial, direct and guaranteed	2,613,542	2,609,756	2,218,264	2,227,197
Government of Canada, direct and guaranteed	1,277,043	1,272,175	535,086	535,649
Municipal	149,194	148,532	71,639	71,617
	$ 8,671,154	$ 8,641,489	$ 6,185,113	$ 6,191,073

a) The Department's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates. The securities held have an average effective market yield of 4.2% (2005 3.4%) per annum and 41% (2005 47%) of the securities have terms to maturity of less than one year.

DEPARTMENT OF FINANCE

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 11

	2006	2005
	($ thousands)	
Agriculture Financial Services Corporation	$ 884,358	$ 899,750
Alberta Social Housing Corporation	261,657	312,944
Public Trustee	224	224
	$ 1,146,239	$ 1,212,918

OTHER LOANS, ADVANCES AND INVESTMENTS

Schedule 12

	2006	2005
	($ thousands)	
Loans and advances		
Farm Credit Stability Act	$ 8,128	$ 14,445
Board of Governors of the University of Alberta	909	1,292
Pratt & Whitney Canada Ltd.	295	851
University of Lethbridge Students' Union	216	422
Implemented guarantees and indemnities	138	144
Judgement debts	11	47
Accountable advances	29	21
	9,726	17,222
Less allowance for doubtful loans and advances	149	191
	9,577	17,031
Investments		
N.A. Properties (1994) Ltd.	1,779	1,623
Alberta Capital Finance Authority	45	45
	1,824	1,668
	$ 11,401	$ 18,699

TANGIBLE CAPITAL ASSETS

Schedule 13

		2006			2005
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
			($ thousands)		
Computer hardware and software	5 years	$ 24,650	$ 15,285	$ 9,365	$ 8,853

DEPARTMENT OF FINANCE

ACCOUNTS AND ACCRUED INTEREST PAYABLE

Schedule 14

	2006	2005
	($ thousands)	
Corporate income tax receipts in abeyance	$ 366,662	$ 364,942
Corporate income tax refunds payable	263,842	-
Accrued interest on unmatured debt	31,537	61,889
Other	81,428	71,174
	$ 743,469	$ 498,005

UNMATURED DEBT

Schedule 15

	2006				2005	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years		($ thousands)		
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (c)	3.50	0.28	$ 367,027	$ 366,440	$ 1,307,481	$ 1,313,269
Fixed rate long-term (d)	6.84	4.08	2,171,469	2,423,320	2,284,613	2,601,025
	6.35	3.58	2,538,496	2,789,760	3,592,094	3,914,294
Unhedged U.S. dollar debt						
Floating rate and short-term fixed rate	-	-	-	-	130,156	122,999
	6.35	3.58	$2,538,496	$2,789,760	$ 3,722,250	$ 4,037,293

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

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

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

d) Canadian dollar fixed rate debt includes $678,696 (2005 $678,696) held by the Canada Pension Plan Investment Fund.

DEPARTMENT OF FINANCE

UMATURED DEBT

Schedule 15 (cont'd)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2006-07, and thereafter are as follows:

	($ thousands)
2006-07	$ 177,379
2007-08	273,428
2008-09	730,679
2009-10	78,342
2010-11	278,196
Thereafter	1,007,175
	2,545,199
Unamortized discount	(6,703)
	$ 2,538,496

None of the debt has call provisions (2005 none).

Derivative Financial Instruments

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

Interest rate swaps involve the exchange of a series of interest payments, either at a fixed or floating rate, based upon a contractual or notional principal amount. An interest rate swap agreement based upon a notional amount involves no exchange of underlying principal. The notional amount serves as the basis for determining the exchange of interest payments. At March 31, 2006, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

The following table summarizes the Department's derivative portfolio. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the financial statements. The fair value of interest rate swaps are based on discounted cash flows using current market yields and exchange rates.

	2006		2005	
	Notional Amount (1)	Net Fair Value	Notional Amount	Net Fair Value
	($ thousands)			
Interest rate swaps	$ 275,000	$ 7,303	$ 825,000	$ 22,243
Cross-currency interest rate swaps	-	-	173,905	17,157
	$ 275,000	$ 7,303	$ 998,905	$ 39,400

(1) Maturing 2007-08: $25,000 and 2008-09 $250,000.

DEPARTMENT OF FINANCE

PENSION OBLIGATIONS

Schedule 16

The Department's pension obligations are described below.

	2006	2005
	($ thousands)	
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 677,833	$ 656,274
Members of the Legislative Assembly Pension Plan (b)	49,504	46,770
Management Employees Pension Plan (c)	29,046	12,349
Public Service Pension Plan (c)	1,543	8,181
	757,926	723,574
Obligations to pension plans for employees of organizations outside the government reporting entity		
Universities Academic Pension Plan (d)	190,291	184,760
Special Forces Pension Plan (d)	63,092	62,899
	253,383	247,659
	$ 1,011,309	$ 971,233

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

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

c) The Department is the sponsor of two multi-employer defined benefit pension plans on behalf of the Government of Alberta. The two plans are the Management Employees Pension Plan (MEPP) and the Public Service Pension Plan (PSPP). As sponsor of the Plans, the Department records the Government's share of the employer's estimated accrued benefit liability. No obligation is recorded where there is an accrued benefit asset.

- For Management Employees, the unfunded liability as determined by actuarial fund valuations as at December 31, 2001 and 2004 is being financed by special payments totaling 7.2% of pensionable earnings shared between employees and employers until December 31, 2015. The special payments will decrease to 5.1% of pensionable earnings on January 1, 2016 and continue until December 31, 2018 as required to eliminate the unfunded liability on or before that date. Current services costs are funded by employers and employees.
- For Public Service, the unfunded liability as determined by an actuarial valuation as at December 31, 2002 is being financed by a special payment of 2.76% of pensionable earnings shared equally between employees and employers as required to eliminate the unfunded liability over the period ending on or before December 31, 2017. Current services costs are funded by employers and employees.

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

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

DEPARTMENT OF FINANCE

PENSION OBLIGATIONS

Schedule 16 (cont'd)

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

Pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services. The assumptions used in the valuations were adopted after consultation between the pension plan boards, the government and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the employee group.

Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of of Return %	Inflation Rate %	Investment Rate of Return %
Public Service Management (Closed Membership) Pension Plan (1) (2)	December 31, 2002	3.00	3.00	6.00
Members of the Legislative Assembly Pension Plan (1)	March 31, 2003	3.00	3.00	6.00
Management Employees Pension Plan	December 31, 2004	4.00	2.75	6.75
Public Service Pension Plan (2)	December 31, 2002	3.75	3.25	7.00
Universities Academic Pension Plan	December 31, 2004	4.00	2.75	6.75
Special Forces Pension Plan	December 31, 2004	3.75	3.25	7.00

1) The inflation rate and investment rate of return used in extrapolation as at March 31, 2006 were 2.75% and 5.0% respectively.
2) As required by the *Public Service Pensions Plan Act*, an actuarial funding valuation as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will be accounted for in 2006-07.

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including net deferred losses of $99,426 (2005 $354,932), unfunded liabilities were extrapolated to March 31, 2006.

A separate pension plan fund is maintained for each pension plan except for the members of the Legislative Assembly plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

DEPARTMENT OF FINANCE

OTHER ACCRUED LIABILITES

Schedule 17

	2006	2005
	($ thousands)	
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 381,107	$ 450,657
Guarantees and indemnities (Schedule 19)	470	2,550
Vacation entitlements	5,048	4,385
Other	395	332
	$ 387,020	$457,924

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 18

	Held by: Department of Finance	Alberta Heritage Savings Trust Fund	Others	Total 2006	Total 2005
			($ thousands)		
Debentures					
Alberta Capital Finance Authority	$ -	$ -	$ 4,655,963	$ 4,655,963	$ 4,267,567
Alberta Social Housing Corporation	261,657	80,927	78,512	421,096	480,938
	261,657	80,927	4,734,475	5,077,059	4,748,505
Deposits					
Alberta Treasury Branches	1,315	-	15,870,308	15,871,623	13,840,032
	$ 262,972	$ 80,927	$ 20,604,783	$ 20,948,682	$ 18,588,537

Guarantees include principal borrowings only and exclude guaranteed interest, the amount of which is not determinable.

The net asset position from the most recent financial statements of government entities with guaranteed liabilities are reported below.

Entity	Date	Position	2006	2005
Alberta Capital Finance Authority	December 31, 2005	Shareholders' Equity	$ 11,737	$ 12,728
Alberta Social Housing Corporation	March 31, 2006	Surplus	$ 401,858	$ 371,674
Alberta Treasury Branches	March 31, 2006	Equity	$ 1,348,995	$ 1,150,274

DEPARTMENT OF FINANCE

OTHER GUARANTEES (a) Schedule 19

	2006	2005	Expiry Date
	($ thousands)		
Farm Credit Stability Act (b)	$ 4,603	$ 15,175	2011
Centre for Engineering Research Inc.	273	792	2007
University of Calgary	934	1,004	2016
Rural utilities loans	183	370	2015
	5,993	17,341	
Less estimated liability (Schedule 17)	470	2,550	
	$ 5,523	$ 14,791	

a) Authorized loan guarantee limits decline as guaranteed loans are repaid.
The lender takes appropriate security prior to issuing a loan to the borrower, which is guaranteed by the Province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower and typically range from prime to prime plus two per cent.
No new program guarantees are being issued under the following Acts: *Farm Credit Stability Act* and the *Rural Utilities Act*.

b) The expiry date shown is the latest expiry date for guaranteed loans under the program.

RELATED PARTY TRANSACTIONS Schedule 20

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

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

The Deputy Minister of Finance is a director of the Alberta Pensions Administration Corporation and the Alberta Capital Finance Authority. Alberta Pensions Administration Corporation is wholly owned and Alberta Capital Finance Authority is 70% owned by the Government of Alberta, through the Department. The Deputy Minister of Finance did not receive any benefit during the year, in cash or in kind, as a result of these directorships.

The investment in Alberta Capital Finance Authority is recorded at cost (see Schedule 12) because the Corporation has the power to pay its retained earnings, which amounted to $11,673,000 at December 31, 2005 (2004 $12,664,000), to municipal and other shareholders, which have borrowed money from the Corporation. During the 2005-06 fiscal year, the Department paid $114,787,000 (2005 $127,980,000) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions Administration Corporation is not significant, either on a cost or on an equity basis.

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

DEPARTMENT OF FINANCE

RELATED PARTY TRANSACTIONS

Schedule 20 (cont'd)

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

	Entities in the Ministry		Other Entities	
	2006	2005	2006	2005
	($ thousands)			
Revenues				
Transfers	$ 1,015,296	$ 1,091,903	$ 291,128	$ 154,748
Interest	3,424	3,937	65,559	65,435
Charges for services	19,634	19,961	231	45
	$ 1,038,354	$ 1,115,801	$ 356,918	$ 220,228
Expenses				
Cost of services	$ 2,311,349	$ 73	$ 6,181	$ 6,106
Assets				
Accounts receivable	$ 164,931	$ 144,361	$ 106,127	$ 68,439
Accrued interest receivable	857	1,695	13,593	11,812
Loans, advances and investments	1,824	1,668	1,146,014	1,212,694
	167,612	147,724	1,265,734	1,292,945
Liabilities				
Accounts and accrued interest payable	12	$ 327	$ -	$ -
School Construction Debentures	-	-	381,107	450,657
	$ 12	$ 327	$ 381,107	$ 450,657

The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed in Schedule 21.

	Other Entities	
	2006	2005
	($ thousands)	
Expenses - incurred by others		
Accommodation	$ 3,369	$ 2,965
Air Travel	8	-
Legal services	2,123	2,059
	$ 5,500	$ 5,024

DEPARTMENT OF FINANCE

ALLOCATED COSTS BY PROGRAM

Schedule 21

Program	Expenses[(1)]	Expenses - Incurred by Others: Accomodation and Air Travel Costs [(2)]	Expenses - Incurred by Others: Legal Services	Valuation Adjustments: Vacation Pay	Valuation Adjustments: Banked Overtime	Valuation Adjustments: Doubtful Accounts	Valuation Adjustments: Pension Provisions	Total 2006	Total 2005
	($ thousands)								
Ministry support services	$ 11,282	$ 683	$ 196	$ 33	$ -	$ -	$ -	$ 12,194	$ 11,288
Fiscal planning and fiscal management	33,585	1,995	321	179	44	960	-	37,084	32,272
Investment, treasury and risk management	21,682	497	942	249	(22)	(2,031)	-	21,317	19,917
Financial sector and pensions	6,159	202	664	51	-	-	-	7,076	6,665
Transfer to Alberta Heritage Savings Trust Fund	1,000,000	-						1,000,000	-
Transfers, debt servicing costs and pensions	1,636,267	-	-	-	-	-	40,076	1,676,343	401,319
	$ 2,708,975	$ 3,377	$ 2,123	$ 512	$ 22	$ (1,071)	$ 40,076	$ 2,754,014	$ 471,461

(1) Expenses - directly incurred as per Statement of Operations, excluding valuation adjustments.

(2) Includes air travel totaling $8 (2005: $nil).

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

MARCH 31, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2006 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 1,119,993	$ 871,419
Receivable from sale of investments	9,500	-
Administration expense receivable	-	22
	$ 1,129,493	$ 871,441
Liabilities		
Administration expense payable	$ 3	$ -
Net Assets (Note 6)	1,129,490	871,441
	$ 1,129,493	$ 871,441

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 7)	$ 36,688	$ 108,049	$ 72,912
Transfers from the General Revenue Fund (Note 6b)	200,000	200,000	-
Transfers to the Alberta Heritage Foundation for Medical Research (Note 6c)	(55,000)	(50,000)	(50,000)
Change in net assets	$ 181,688	258,049	22,912
Net assets at beginning of year		871,441	848,529
Net assets at end of year		$ 1,129,490	$ 871,441

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating transactions		
Net investment income	$ 108,049	$ 72,912
Non-cash items included in net investment income	(7,524)	(9,751)
	100,525	63,161
(Increase) decrease in receivables	(9,478)	4
Increase in payables	3	-
Cash provided by operating transactions	91,050	63,165
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	64,000	216,060
Purchase of investments	(315,046)	(220,332)
Cash applied to investing transactions	(251,046)	(4,272)
Transfers		
Transfers from the General Revenue Fund	200,000	-
Transfers to the Foundation	(50,000)	(50,000)
Cash provided by (applied to) transfers	150,000	(50,000)
(Decrease) increase in cash	(9,996)	8,893
Cash at beginning of year	17,632	8,739
Cash at end of year	$ 7,636	$ 17,632
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 7,636	$ 17,632

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 ($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund ("the Fund") operates under the authority of the *Alberta Heritage Foundation for Medical Research Act*, Chapter A 21, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for transfer to the Alberta Heritage Foundation for Medical Research while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 2 (continued)

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures contracts, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3 and Schedules A to E.

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

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments. The fair value of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 2 (continued)

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

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

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

(v) The fair value of absolute return strategy investments are estimated by external managers.

(vi) The fair value of timberland investments are appraised annually by independent third party evaluators.

(vii) The fair value of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

	2006			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-Income Securities (Schedule A)	($ thousands)			($ thousands)		
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 7,636	$ 7,636	0.6	$ 17,632	$ 17,632	1.9
Canadian Dollar Public Bond Pool (b)	252,669	251,302	20.8	192,726	195,135	21.4
Private Mortgage Pool (c)	37,653	40,106	3.3	29,681	32,935	3.6
Currency Alpha Pool (d)	1,142	1,173	0.1	-	-	-
Tactical Asset Allocation Pool (e)	2,146	2,074	0.2	1,820	1,822	0.2
	301,246	302,291	25.0	241,859	247,524	27.1
Canadian Equities (Schedule B)						
Domestic Passive Equity Pooled Fund (f)	103,609	103,352	8.5	76,956	76,821	8.4
Canadian Pooled Equity Fund (g)	49,290	64,376	5.3	38,735	46,282	5.1
Canadian Equity Enhanced Index Pool (h)	24,587	29,868	2.5	24,741	27,077	3.0
Canadian Large Cap Pool (i)	23,705	23,441	1.9	12,385	13,627	1.5
Growing Equity Income Pool (j)	10,015	14,300	1.1	10,878	12,931	1.4
Canadian Multi-Cap Pool (k)	16,842	17,045	1.4	11,456	11,465	1.3
Tactical Asset Allocation Pool Canadian futures contracts (e)	(10,840)	(10,840)	(1.0)	(9,300)	(9,300)	(1.0)
	217,208	241,542	19.7	165,851	178,903	19.7
United States Equities (Schedule C)						
S&P 500 Index Fund (l)	152,761	159,684	13.2	114,362	115,415	12.7
US Large Cap Equity Pool	-	-	-	9	9	-
US Small/Mid Cap Equity Pool (m)	26,457	31,037	2.6	19,392	20,330	2.2
Portable Alpha United States Equity Pool (n)	30,068	29,841	2.5	25,408	24,708	2.7
Growing Equity Income Pool (j)	4,504	4,430	0.4	2,074	2,060	0.2
Tactical Asset Allocation Pool US futures contracts (e)	10,945	10,945	1.0	9,349	9,349	1.0
	224,735	235,937	19.7	170,594	171,871	18.8
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (o)	167,368	185,893	15.4	131,623	131,120	14.3
EAFE Passive Equity Pool (p)	17,322	22,457	1.9	27,817	34,351	3.8
Emerging Market Equity Pool (q)	9,192	12,610	1.0	9,257	10,185	1.1
EAFE Structured Equity Pool (p)	28,790	28,014	2.3	-	-	-
	222,672	248,974	20.6	168,697	175,656	19.2
Real Estate (Schedule E)						
Private Real Estate Pool (r)	86,748	112,874	9.3	66,365	80,152	8.8
Foreign Private Real Estate Pool (s)	3,290	3,226	0.3	3,162	3,000	0.3
	90,038	116,100	9.6	69,527	83,152	9.1
Absolute Return Strategies (t)	40,973	41,110	3.4	44,279	43,906	4.8
Private Equities (u)	13,105	14,204	1.2	6,395	6,963	0.8
Private Income (u)	5,576	5,594	0.5	4,217	4,154	0.5
Timberland (v)	4,440	4,182	0.3	-	-	-
Total Investments (w)	$1,119,993	$1,209,934	100.0	$ 871,419	$ 912,129	100.0

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2006	2005
Absolute Return Strategy Pool	6.4	6.4
Canadian Dollar Public Bond Pool	2.6	2.2
Canadian Equity Enhanced Equity Pool	2.3	5.1
Canadian Large Cap Equity Pool	1.3	0.6
Canadian Multi-Cap Pool	4.7	5.0
Canadian Pooled Equity Fund	5.3	4.3
Currency Alpha Pool	2.0	-
Domestic Passive Equity Pooled Fund	3.9	3.2
EAFE Active Equity Pool	3.2	2.9
EAFE Passive Equity Pool	7.2	7.5
EAFE Structured Equity Pool	2.6	-
Emerging Markets Equity Pool	2.1	2.4
Foreign Private Equity Pool (02)	3.5	3.5
Foreign Private Equity Pool (05)	7.2	-
Foreign Private Real Estate Pool	6.4	6.4
Growing Equity Income Pool	5.3	5.0
Portable Alpha United States Equity Pool	6.9	6.9
Private Equity Pool	6.6	6.6
Private Equity Pool (02)	5.3	5.2
Private Equity Pool (04)	5.5	5.5
Private Income Pool	1.7	1.8
Private Income Pool 2	6.9	-
Private Mortgage Pool	2.9	2.7
Private Real Estate Pool	3.0	2.8
Standard & Poor's 500 Index Fund	7.0	6.2
Tactical Asset Allocation Pool	6.4	2.6
Timberland Pool	6.5	-
US Small/Mid Cap Equity Pool	2.5	2.2

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2006, securities held by the Pool have an average effective market yield of 4.7% per annum (2005: 4.48% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 3%); 1 to 5 years: 34% (2005: 38%); 5 to 10 years: 33% (2005: 31%); 10 to 20 years: 12% (2005: 12%); and over 20 years: 19% (2005: 16%).

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 3 (continued)

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.5%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2006, securities held by the Pool have an average effective market yield of 5.27% per annum (2005: 5.29% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 2%); 1 to 5 years: 19% (2005: 22%); 5 to 10 years: 50% (2005: 43%); 10 to 20 years: 10% (2005: 12%); and over 20 years: 19% (2005: 21%).

(d) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(e) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(g) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection, while remaining sector neutral.

(h) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(i) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(j) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 3 (continued)

(k) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3(f)).

(l) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3(f)).

(m) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(n) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(o) The Europe, Australasia and Far East (EAFE) Active Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(p) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3(f)).

(q) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(s) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(t) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 3 (continued)

(u) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool allows unit holders to participate as equity investors in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(v) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

(w) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and are temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 4 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006.

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				($ thousands)			
Equity index swap contracts	75%	25%	-	$ 228,823	$ 4,338	$ 125,496	$ 508
Interest rate swap contracts	22%	49%	29%	87,123	(221)	40,354	(1,015)
Forward foreign exchange contracts	100%	-	-	111,931	(100)	69,421	946
Cross-currency interest rate swaps	14%	34%	52%	62,412	4,761	42,907	520
Credit default swap contracts	2%	5%	93%	87,798	213	10,252	106
Bond index swap contracts	100%	-	-	18,790	2,420	3,793	26
Equity index futures contracts	100%	-	-	62,568	1,312	22,795	471
				$ 659,445	$ 12,723	$ 315,018	$ 1,562

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

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

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2005-2006 fiscal year:

Fixed-income securities	27.5% to 17.5%
Equities	72.5% to 82.5%

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 6 NET ASSETS

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

	Cumulative since 1980	
	2006	2005
	($ thousands)	
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 300,000	$ 300,000
Transfers from the General Revenue Fund (b)	200,000	-
Accumulated investment income	1,553,490	1,445,441
Accumulated transfers to the Foundation (c)	(924,000)	(874,000)
Net Assets	$ 1,129,490	$ 871,441

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980. The *Alberta Heritage Foundation for Medical Research Act* (the Act) provides that money required by the Foundation for the furtherance of its objectives shall be paid from the Fund, but no money shall be paid out of the Fund if the payment would result in the value of the assets of the Fund, at cost, being less than $300 million {section 8(2)}.

(b) Section 7.1 of the Act provides that the Fund may receive up to $500 million, of which it received $200 million from the GRF during the year.

(c) In accordance with section 8(1) of the Act, the Fund paid out $50 million to the Foundation during the year.

NOTE 7 NET INVESTMENT INCOME

	2006	2005
	($ thousands)	
Deposits and fixed-income securities	$ 18,160	$ 14,806
Canadian equities	46,445	32,336
United States equities	5,594	(228)
Non-North American equities	28,043	18,448
Real estate	6,876	4,832
Absolute return strategies	1,680	2,308
Private equities	736	378
Private income	807	217
Timberland	(81)	-
Investment income	108,260	73,097
Direct administrative expense (Note 8)	(211)	(185)
Net investment income	$ 108,049	$ 72,912

Investment income is comprised of interest, dividends, amortization of discount or premium, swap income, security lending income and realized gains and losses, net of write-downs on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2006 includes writedowns of $3,449 (2005: $2,022).

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	2006	2005 (restated)
	($ thousands)	
Direct fund expenses (Note 7)	$ 211	$ 185
External management fees	2,811	2,081
Internal management expenses	379	258
Total	$ 3,401	$ 2,524
Expenses as a percentage of net assets at fair value	0.28%	0.28%

NOTE 9 INVESTMENT PERFORMANCE (SCHEDULE F)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	15.6%	6.4%
Benchmark return (1)	14.6%	5.9%

(1) The overall benchmark return for year ended March 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to 2006 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 10,804	$ 10,804	$ 19,780	$ 19,780
Fixed-income securities (a)				
Corporate, public and private	169,011	168,701	115,260	117,858
Government of Canada, direct and guaranteed	70,698	69,702	58,545	58,591
Provincial, direct and guaranteed:				
Alberta	1,525	1,489	111	119
Other provinces	44,362	46,679	44,236	47,133
Municipal	1,202	1,272	2,358	2,474
	286,798	287,843	220,510	226,175
Receivable from sale of investments and accrued investment income	6,205	6,205	2,700	2,700
Accounts payable and accrued liabilities	(2,561)	(2,561)	(1,131)	(1,131)
	3,644	3,644	1,569	1,569
	$ 301,246	$ 302,291	$ 241,859	$ 247,524

(a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.77% per annum (2005: 4.59% per annum) and the following term structure based on principal amount:

	2006	2005
	%	
under 1 year	3	3
1 to 5 years	31	35
5 to 10 years	35	33
10 to 20 years	12	12
over 20 years	19	17
	100	100

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 1,224	$ 1,224	$ 1,347	$ 1,347
Public equities (a) (b)				
Financials	64,352	71,760	52,983	57,366
Energy	55,812	66,810	29,885	36,319
Materials	29,730	35,262	24,136	25,539
Industrials	12,483	14,404	8,722	9,649
Consumer discretionary	13,500	12,426	11,821	11,216
Telecommunication services	10,254	11,266	10,245	10,854
Information technology	10,533	9,721	10,115	9,565
Consumer staples	7,374	7,061	6,987	7,754
Health care	3,058	2,521	2,890	2,379
Utilities	2,381	2,315	2,301	2,454
	209,477	233,546	160,085	173,095
Small Cap Pooled Fund	4,867	5,132	3,446	3,488
Receivable from sale of investments and accrued investment income	5,494	5,494	2,976	2,976
Accounts payable and accrued liabilities	(3,854)	(3,854)	(2,003)	(2,003)
	1,640	1,640	973	973
	$ 217,208	$ 241,542	$ 165,851	$ 178,903

(a) The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $91,963 (2005: $70,480).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 902	$ 902	$ 2,440	$ 2,440
Public equities (a) (b)				
Financials	47,619	49,616	34,925	34,373
Information technology	34,341	35,973	25,957	25,746
Health care	28,740	29,946	22,541	22,055
Industrials	27,433	29,277	20,864	21,408
Consumer discretionary	23,587	24,653	19,591	20,167
Energy	19,527	21,966	13,546	14,808
Consumer staples	19,847	19,644	16,241	15,965
Materials	7,477	8,305	6,373	6,706
Utilities	7,185	7,385	5,835	6,091
Telecommunication services	6,514	6,707	4,849	4,680
	222,270	233,472	170,722	171,999
Receivable from sale of investments and accrued investment income	7,754	7,754	1,337	1,337
Accounts payable and accrued liabilities	(6,191)	(6,191)	(3,905)	(3,905)
	1,563	1,563	(2,568)	(2,568)
	$ 224,735	$ 235,937	$ 170,594	$ 171,871

(a) The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $119,016 (2005: $77,811).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's (S&P 500) Index.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 5,612	$ 5,612	$ 3,308	$ 3,308
Public equities (a) (b)				
Financials	59,173	69,338	41,421	44,639
Industrials	26,843	31,874	19,015	20,380
Consumer discretionary	25,434	28,374	22,447	22,620
Materials	16,183	19,342	13,538	14,808
Energy	15,359	17,826	13,622	14,829
Health care	16,124	16,683	10,762	10,287
Information technology	15,085	16,145	8,752	8,562
Consumer staples	14,465	14,371	9,724	9,874
Telecommunication services	14,265	13,108	14,722	14,420
Utilities	9,443	10,423	7,080	7,389
	212,374	237,484	161,083	167,808
Emerging markets pooled funds	3,699	4,891	4,000	4,234
Receivable from sale of investments and accrued investment income	5,119	5,119	2,124	2,124
Accounts payable and accrued liabilities	(4,132)	(4,132)	(1,818)	(1,818)
	987	987	306	306
	$ 222,672	$ 248,974	$ 168,697	$ 175,656

(a) The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and equity index futures contracts totalling $26,759 (2005: $nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Japan	$ 51,046	$ 55,764	$ 29,994	$ 29,004
United Kingdom	44,671	46,843	36,152	36,354
France	21,555	24,298	15,505	16,582
Germany	14,016	16,265	11,375	11,902
Switzerland	14,569	16,082	10,174	10,588
Netherlands	10,488	12,277	8,799	9,061
Australia	8,091	8,924	6,436	7,584
Italy	6,698	7,635	5,684	6,458
Spain	6,187	6,621	4,483	4,895
Sweden	4,203	4,920	4,154	4,476
Other	30,850	37,855	28,327	30,904
	$ 212,374	$ 237,484	$ 161,083	$ 167,808

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 62	$ 62	$ 33	$ 33
Real estate (a)				
Office	40,949	55,803	31,149	36,450
Retail	27,597	37,334	24,783	32,457
Industrial	10,477	11,744	5,444	6,332
Residential	4,812	5,080	3,694	3,618
	83,835	109,961	65,070	78,857
Foreign Private Real Estate Pool	3,290	3,226	3,162	3,000
Participation units	2,618	2,618	1,156	1,156
Accrued income and accounts receivable	233	233	106	106
	$ 90,038	$ 116,100	$ 69,527	$ 83,152

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 52,635	$ 66,955	$ 41,651	$ 52,477
Alberta	19,111	30,780	13,209	16,373
Quebec	10,381	10,054	8,657	8,295
British Columbia	1,708	2,172	1,553	1,712
	$ 83,835	$ 109,961	$ 65,070	$ 78,857

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

March 31, 2006

The Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

	One Year Return - %					5 Year Compound Annualized
Time-weighted Rates of Return	**2006**	**2005**	**2004**	**2003**	**2002**	**Return**
Short-term fixed income	**2.9**	**2.3**	**3.0**	**2.7**	**3.9**	**3.0**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**5.7**	**5.6**	**11.6**	**9.6**	**5.9**	**7.7**
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**28.8**	**15.4**	**36.3**	**(17.4)**	**3.7**	**11.6**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*4.9*	*11.7*
United States equities	**8.6**	**(1.7)**	**22.2**	**(30.5)**	**1.6**	**(1.6)**
S&P 1500 Index	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*1.6*	*(1.7)*
Non-North American equities	**23.8**	**7.4**	**40.9**	**(29.1)**	**(5.8)**	**4.6**
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*(7.3)*	*3.3*
Real estate	**20.7**	**16.9**	**7.5**	**9.8**	**7.2**	**12.3**
IPD Large Institutional All Property Index	*18.1*	*7.1*	*5.7*	*8.9*	*9.9*	*9.8*
Absolute return strategies	**5.2**	**5.5**	**10.7**	**1.6**	**n/a**	**n/a**
HFRX Global Hedged Index	*10.1*	*8.1*	*6.7*	*4.7*	*n/a*	*n/a*
Private equities	**13.3**	**(0.9)**	**1.1**	**(3.3)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*10.2*	*10.1*	*8.7*	*5.7*	*n/a*	*n/a*
Private income	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*	*n/a*
Timberland Investments*	**(4.9)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
*CPI plus 4%**	*4.2*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Overall	**15.6**	**7.5**	**24.0**	**(13.4)**	**2.4**	**6.4**
Policy Benchmark	***14.6***	***6.0***	***23.3***	***(13.7)***	***2.7***	***5.9***

* Returns from Timberland Investments are for nine months.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2006 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 13,681,630	$ 11,417,548
Accrued investment income	26,433	7,008
Administration expense receivable	22	281
	$ 13,708,085	$ 11,424,837
Liabilities		
Accounts payable	$ 135,842	$ 7
Due to the General Revenue Fund	77,684	62,388
	213,526	62,395
Net Assets (Note 6)	13,494,559	11,362,442
	$ 13,708,085	$ 11,424,837

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
	($ thousands)		
Net income (Note 7)	$ 680,973	$ 1,397,413	$ 1,091,903
Transfers to the General Revenue Fund (Note 6a)	(465,973)	(1,015,296)	(1,091,903)
Amount retained for inflation-proofing (Note 6a)	215,000	382,117	-
Transfers from the General Revenue Fund (Notes 6c & 6d)	250,000	1,750,000	-
Change in net assets	$ 465,000	2,132,117	-
Net Assets at beginning of year		11,362,442	11,362,442
Net Assets at end of year		$ 13,494,559	$ 11,362,442

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

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating transactions		
Net income	$ 1,397,413	$ 1,091,903
Non-cash items included in net income	(166,400)	(208,924)
	1,231,013	882,979
(Increase) decrease in accounts receivable	(19,166)	563
Increase (decrease) in accounts payable	135,835	(35)
Cash provided by operating transactions	1,347,682	883,507
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,157,512	2,716,273
Purchase of investments	(3,097,533)	(2,460,083)
Cash (applied to) provided by investing transactions	(1,940,021)	256,190
Transfers		
Transfers from the General Revenue Fund	1,750,000	-
Transfers to the General Revenue Fund	(1,015,296)	(1,091,903)
Increase (decrease) in amounts due to the General Revenue Fund	15,296	(90,097)
Cash provided by (applied to) transfers	750,000	(1,182,000)
Increase (decrease) in cash	157,661	(42,303)
Cash at beginning of year	71,359	113,662
Cash at end of year	$ 229,020	$ 71,359
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 229,020	$ 71,359

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended March 31, 2006 ($ thousands)

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

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

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 2 (continued)

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expenses from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expenses from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3 and Schedules A to E.

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

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments. The fair values of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

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

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 2 (continued)

(ii) Private fixed-income securities, provincial corporation debentures and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

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

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

(v) The fair value of absolute return strategy investments are estimated by external managers.

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

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

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

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 3 PORTFOLIO INVESTMENTS

	2006			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-Income Securities (Schedule A)	($ thousands)			($ thousands)		
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 229,020	$ 229,020	1.5	$ 71,359	$ 71,359	0.6
Canadian Dollar Public Bond Pool (b)	3,877,585	3,888,854	25.9	3,094,268	3,154,021	25.5
Bonds, notes & short-term paper, directly held (c)	22,315	22,358	0.2	23,067	23,742	0.2
Private Mortgage Pool (d)	584,319	591,638	3.9	518,924	532,357	4.3
Provincial corporation debentures, directly held (e)	80,927	113,925	0.8	88,340	132,261	1.1
Loans, directly held (f)	102,219	102,219	0.7	93,298	93,298	0.8
Currency Alpha Pool (g)	16,751	17,209	0.1	-	-	-
Tactical Asset Allocation Pool (h)	28,921	27,947	0.2	24,529	24,555	0.2
	4,942,057	4,993,170	33.3	3,913,785	4,031,593	32.7
Public Equities						
Canadian (Schedule B)						
Domestic Passive Equity Pooled Fund (i)	1,032,351	1,131,293	7.5	868,241	989,240	8.1
Canadian Pooled Equity Fund (j)	493,715	666,827	4.4	491,455	605,425	4.9
Canadian Equity Enhanced Index Pool (k)	278,441	332,581	2.2	292,113	319,695	2.6
Canadian Large Cap Equity Pool (l)	230,719	231,602	1.5	163,796	184,242	1.5
Growing Equity Income Pool (m)	106,187	150,261	1.0	128,558	152,821	1.3
Canadian Multi-Cap Pool (n)	203,525	205,931	1.4	138,847	138,958	1.1
Tactical Asset Allocation Pool Canadian futures contracts (h)	(146,080)	(146,080)	(1.0)	(125,308)	(125,308)	(1.0)
	2,198,858	2,572,415	17.0	1,957,702	2,265,073	18.5
United States (Schedule C)						
S&P 500 Index Fund (o)	1,472,667	1,629,524	10.9	1,179,505	1,284,273	10.4
US Small/Mid Cap Equity Pool (p)	266,559	307,170	2.1	237,574	240,550	2.0
US Large Cap Equity Pool	-	-	-	77	77	-
Portable Alpha United States Equity Pool (q)	386,366	382,057	2.5	326,700	316,340	2.6
Growing Equity Income Pool (m)	47,759	46,552	0.3	24,513	24,350	0.2
Tactical Asset Allocation Pool US futures contracts (h)	147,487	147,487	1.0	125,969	125,969	1.0
	2,320,838	2,512,790	16.8	1,894,338	1,991,559	16.2
Non-North American (Schedule D)						
EAFE Active Equity Pool (r)	1,615,625	1,867,616	12.4	1,402,418	1,467,601	12.0
EAFE Passive Equity Pool (s)	169,033	238,566	1.6	267,922	364,905	3.0
Emerging Markets Equity Pool (t)	116,466	159,782	1.1	128,567	141,465	1.1
EAFE Structured Equity Pool (s)	264,167	253,781	1.7	-	-	-
	2,165,291	2,519,745	16.8	1,798,907	1,973,971	16.1
Real Estate (Schedule E)						
Private Real Estate Pool (u)	1,055,710	1,396,862	9.3	966,041	1,148,626	9.4
Foreign Private Real Estate Pool (v)	44,916	44,042	0.3	43,161	40,948	0.3
	1,100,626	1,440,904	9.6	1,009,202	1,189,574	9.7
Absolute Return Strategies (w)	569,151	571,720	3.8	615,053	610,593	5.0
Private Equities (x)	243,179	258,322	1.7	166,624	153,374	1.3
Private Income (x)	81,688	81,948	0.6	61,937	61,012	0.5
Timberland (y)	59,942	56,454	0.4	-	-	-
Total Investments (z)	$ 13,681,630	$ 15,007,468	100.0	$ 11,417,548	$ 12,276,749	100.0

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2006	**2005**
Absolute Return Strategy Pool	88.5	88.5
Canadian Dollar Public Bond Pool	40.2	35.6
Canadian Equity Enhanced Index Pool	25.8	60.2
Canadian Large Cap Equity Pool	12.6	8.0
Canadian Multi-Cap Pool	56.9	60.2
Canadian Pooled Equity Fund	54.5	56.3
Currency Alpha Pool	28.9	-
Domestic Passive Equity Pooled Fund	42.3	41.7
EAFE Active Equity Pool	31.7	31.7
EAFE Passive Equity Pool	76.5	79.9
EAFE Structured Equity Pool	24.0	-
Emerging Markets Equity Pool	26.4	33.6
Foreign Private Equity Pool (02)	43.8	43.8
Foreign Private Equity Pool (05)	87.3	-
Foreign Private Real Estate Pool	87.1	87.1
Growing Equity Income Pool	55.8	59.1
Portable Alpha United States Equity Pool	87.9	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	62.1	62.1
Private Equity Pool (04)	77.0	77.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	25.7	25.7
Private Income Pool 2	86.7	-
Private Mortgage Pool	43.4	44.2
Private Real Estate Pool	37.1	40.4
Standard & Poor's 500 Index Fund	71.8	69.3
Tactical Asset Allocation Pool	86.7	35.5
Timberland Pool	87.6	-
US Small/Mid Cap Equity Pool	25.2	25.5

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2006, securities held by the Pool have an average effective market yield of 4.7% per annum (2005: 4.48% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 3%); 1 to 5 years: 34% (2005: 38%); 5 to 10 years: 33% (2005: 31%); 10 to 20 years: 12% (2005: 12%); and over 20 years: 19% (2005: 16%).

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

(c) As at March 31, 2006, fixed-income securities held directly by the Fund have an average effective market yield of 3.92% per annum (2005: 3.18% per annum). As at March 31, 2006, fixed-income securities have the following term structure based on principal amount: under two years: 100% (2005: 100%).

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.5%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2006, securities held by the Pool have an average effective market yield of 5.27% per annum (2005: 5.29% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 2%); 1 to 5 years: 19% (2005: 22%); 5 to 10 years: 50% (2005: 43%); 10 to 20 years: 10% (2005: 12%); and over 20 years: 19% (2005: 21%).

(e) As at March 31, 2006, Provincial corporation debentures have an average effective market yield of 8.00% per annum (2005: 7.51% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100% (2005: 100%).

(f) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at March 31, 2006, investment in loans, at cost, include the Ridley Grain loan amounting to $100,000 (2005: $91,245) and the Vencap loan amounting to $2,219 (2005: $2,053).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $100,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2006 amounted to $90,161 (2005: $92,517). The increase in carrying value of the Ridley Grain loan resulted from a change in management's estimate of the realizable value of the loan. Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(g) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(h) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(i) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool.

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(j) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(k) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(l) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(m) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(n) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (i)).

(o) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (i)).

(p) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(q) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(r) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-north American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

(s) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (i)).

(t) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(u) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(v) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(w) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(x) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool invests in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(y) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

(z) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006:

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				($ thousands)			
Equity index swap contracts	75%	25%	-	$ 2,460,014	$ 45,423	$ 1,534,324	$ 7,673
Interest rate swap contracts	22%	49%	29%	1,053,569	(2,391)	491,031	(12,449)
Forward foreign exchange contracts	100%	-	-	1,554,419	(1,980)	935,430	13,334
Cross-currency interest rate swaps	14%	34%	52%	711,678	52,051	580,540	2,228
Credit default swap contracts	2%	5%	93%	1,298,187	2,984	128,430	1,384
Bond index swap contracts	100%	-	-	236,998	24,470	61,311	428
Equity index futures contracts	100%	-	-	782,574	15,652	302,125	5,957
				$ 8,097,439	$ 136,209	$ 4,033,191	$ 18,555

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

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2006-2009 Business Plan proposed the following long-term policy asset mix for the Fund.

Public equities	45.0%
Fixed income securities	30.0%
Real estate	10.0%
Absolute return strategies	5.0%
Private equities	4.0%
Private income	4.0%
Timberland	2.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 6 NET ASSETS

The following table shows accumulated net income and transfers from (to) the General Revenue Fund (GRF) since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2006	**2005**
	($ thousands)	
Accumulated net income	$ 28,321,592	$ 26,924,179
Transfers to General Revenue Fund (a)		
Section 8(2) transfers		
Income	(25,953,222)	(24,555,809)
Amount Retained for Inflation-proofing	812,753	430,636
	(25,140,469)	(24,125,173)
Capital Expenditures (1976-1995) (b)	(3,485,888)	(3,485,888)
	(28,626,357)	(27,611,061)
Transfers from the General Revenue Fund		
Resource Revenue (1976-1987)	12,049,324	12,049,324
Access to the Future (c)	750,000	-
Appropriations (d)	1,000,000	-
	13,799,324	12,049,324
Net Assets	$ 13,494,559	$ 11,362,442

(a) In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act* (the Act), the Fund transferred $1,015 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $1,397 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $382 million, shall be transferred to the General Revenue fund annually in a manner determined by the Minister of Finance.

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

(c) Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be allocated from the GRF to the Fund, of which $750 million was received in the current fiscal year.

(d) On March 20, 2006, the Fund received $1 billion from the GRF under *The Appropriation (Supplementary Supply) Act*, 2006, which received Royal Assent on March 16, 2006.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 7 NET INCOME

	2006	2005
	($ thousands)	
Deposit and fixed-income securities	$ 318,152	$ 264,136
Canadian equities	594,845	450,950
United States equities	57,840	9,086
Non-North American equities	299,714	258,049
Real estate	89,573	68,678
Absolute return strategies	23,444	32,098
Private equities	5,380	7,925
Private income	11,853	3,184
Timberland	(1,088)	-
Investment income	1,399,713	1,094,106
Direct administrative expenses (Note 8)	(2,300)	(2,203)
Net income	$ 1,397,413	$ 1,091,903

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2006 includes writedowns totalling $43,055 (2005: $34,425).

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	2006	2005
		(restated)
	($ thousands)	
Direct fund expense (Note 7)	$ 2,300	$ 2,203
External management fees	37,274	28,725
Internal management expenses	4,797	3,713
Total	$ 44,371	$ 34,641
Expenses as a percentage of net assets at fair value	0.299%	0.283%

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 9 INVESTMENT PERFORMANCE (SCHEDULE F)

The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	15.2%	7.1%
Benchmark return (1)(2)	13.8%	6.7%

(1) The overall benchmark return for the year ended March 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

(2) The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 2.2%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.7%.

NOTE 10 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to 2006 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 276,441	$ 276,441	$ 103,527	$ 103,527
Fixed-income securities (a)				
Corporate, public and private	2,599,608	2,583,255	1,890,339	1,905,009
Government of Canada, direct and guaranteed	1,104,032	1,097,843	960,687	968,395
Provincial, direct and guaranteed:				
Alberta	23,397	23,044	1,781	1,931
Other provinces	681,060	720,829	712,581	761,815
Provincial corporation debentures	80,927	113,925	88,340	132,261
Loans	102,218	102,218	93,298	93,298
Municipal	18,445	19,686	37,860	39,985
	4,609,687	4,660,800	3,784,886	3,902,694
Receivable from sale of investments and accrued investment income	95,136	95,136	43,651	43,651
Accounts payable and accrued liabilities	(39,207)	(39,207)	(18,279)	(18,279)
	55,929	55,929	25,372	25,372
	$ 4,942,057	$ 4,993,170	$ 3,913,785	$ 4,031,593

(a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.98% per annum (2005: 4.84% per annum) and the following term structure based on principal amount:

	2006	2005
	%	%
under 1 year	3	3
1 to 5 years	30	33
5 to 10 years	35	36
10 to 20 years	13	11
over 20 years	19	17
	100	100

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule B

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 12,558	$ 12,558	$ 17,140	$ 17,140
Public equities (a) (b)				
Financials	660,495	760,049	637,357	725,438
Energy	554,056	711,005	357,358	459,663
Materials	301,259	374,979	276,563	322,935
Industrials	124,398	152,304	99,590	121,832
Consumer discretionary	129,733	131,980	136,794	143,247
Telecommunication services	105,590	119,040	123,781	138,568
Information technology	107,604	103,013	118,285	121,644
Consumer staples	73,608	74,865	81,341	98,161
Health care	29,495	26,870	30,952	30,464
Utilities	22,815	25,320	24,398	31,333
	2,109,053	2,479,425	1,886,419	2,193,285
Small Cap Pooled Fund	58,821	62,006	41,766	42,271
Receivable from sale of investments and accrued investment income	59,641	59,641	37,239	37,239
Accounts payable and accrued liabilities	(41,215)	(41,215)	(24,862)	(24,862)
	18,426	18,426	12,377	12,377
	$ 2,198,858	$ 2,572,415	$ 1,957,702	$ 2,265,073

(a) The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $1,047,241 (2005: $907,201).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 8,924	$ 8,924	$ 29,803	$ 29,803
Public equities (a) (b)				
Financials	492,193	528,942	387,321	398,319
Information technology	353,870	382,823	287,905	298,195
Health Care	296,126	318,816	249,009	255,525
Industrials	283,024	310,205	233,052	248,242
Consumer discretionary	242,824	261,940	218,328	233,740
Energy	203,682	234,654	151,561	171,637
Consumer staples	204,301	210,917	177,873	184,501
Materials	77,008	87,447	72,307	77,985
Utilities	74,274	78,710	65,324	70,617
Telecommunication services	67,341	72,141	52,937	54,077
	2,294,643	2,486,595	1,895,617	1,992,838
Receivable from sale of investments and accrued investment income	80,368	80,368	16,281	16,281
Accounts payable and accrued liabilities	(63,097)	(63,097)	(47,363)	(47,363)
	17,271	17,271	(31,082)	(31,082)
	$ 2,320,838	$ 2,512,790	$ 1,894,338	$ 1,991,559

(a) The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $1,326,594 (2005: $929,248).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 57,576	$ 57,576	$ 37,408	$ 37,408
Public equities (a) (b)				
Financials	572,706	699,874	439,381	500,068
Industrials	259,529	321,123	200,853	226,907
Consumer discretionary	245,825	286,011	237,437	253,047
Materials	157,432	195,718	145,507	166,576
Energy	148,267	179,909	143,749	165,802
Health care	154,693	166,597	111,514	113,706
Information technology	146,110	162,371	91,900	94,916
Consumer staples	138,700	143,264	101,731	109,365
Telecommunication services	137,771	131,617	155,675	161,388
Utilities	91,188	105,082	74,749	82,541
	2,052,221	2,391,566	1,702,496	1,874,316
Emerging market pooled funds	46,867	61,976	55,559	58,803
Receivable from sale of investments and accrued investment income	48,418	48,418	23,849	23,849
Accounts payable and accrued liabilities	(39,791)	(39,791)	(20,405)	(20,405)
	8,627	8,627	3,444	3,444
	$ 2,165,291	$ 2,519,745	$ 1,798,907	$ 1,973,971

(a) The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and equity index futures contracts totalling $242,413 (2005: $nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Japan	$ 489,461	$ 556,801	$ 312,925	$ 320,278
United Kingdom	431,466	471,910	380,864	405,968
France	206,848	242,852	162,309	183,838
Germany	134,382	162,451	119,400	131,916
Switzerland	140,028	160,948	106,425	117,242
Netherlands	100,723	122,836	91,777	100,489
Australia	77,449	88,969	67,350	83,907
Italy	64,186	76,189	59,403	71,454
Spain	59,245	66,008	46,605	54,061
Sweden	40,398	49,272	44,048	49,991
Other	308,035	393,330	311,390	355,172
	$ 2,052,221	$ 2,391,566	$ 1,702,496	$ 1,874,316

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 766	$ 766	$ 469	$ 469
Real estate (a)				
Office	498,043	690,588	453,555	522,348
Retail	335,662	462,023	360,867	465,131
Industrial	127,434	145,334	79,273	90,736
Residential	58,525	62,871	53,785	51,850
	1,019,664	1,360,816	947,480	1,130,065
Foreign Private Real Estate Pool	44,916	44,042	43,161	40,948
Participation units	32,397	32,397	16,571	16,571
Accrued income and accounts receivable	2,883	2,883	1,521	1,521
	$ 1,100,626	$ 1,440,904	$ 1,009,202	$ 1,189,574

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 640,189	$ 828,604	$ 606,473	$ 752,027
Alberta	232,439	380,913	192,339	234,630
Quebec	126,261	124,425	126,049	118,870
British Columbia	20,775	26,874	22,619	24,538
	$ 1,019,664	$ 1,360,816	$ 947,480	$ 1,130,065

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

For the Year Ended March 31, 2006

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

Time-weighted rates of return	One Year Return - % 2006	2005	2004	2003	2002	5 Year Compound Annualized Return
Short-term fixed income	**2.9**	**2.3**	**2.9**	**3.0**	**3.8**	**3.0**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**6.5**	**5.5**	**11.3**	**9.5**	**5.9**	**7.7**
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**28.8**	**15.4**	**36.6**	**(16.6)**	**4.2**	**12.1**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*4.9*	*11.7*
United States equities	**8.2**	**(1.6)**	**22.0**	**(30.6)**	**1.4**	**(1.8)**
S&P 1500 Index	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*1.6*	*(1.7)*
Non-North American equities	**24.2**	**7.6**	**40.9**	**(29.1)**	**(5.8)**	**4.7**
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*(7.3)*	*3.3*
Real estate	**20.7**	**17.0**	**7.5**	**9.8**	**7.3**	**12.3**
IPD Large Institutional All Property Index	*18.1*	*7.1*	*5.7*	*9.6*	*9.9*	*10.0*
Absolute return strategies	**5.2**	**5.5**	**10.7**	**1.6**	**n/a**	**n/a**
HFRX Global Hedged Index	*10.1*	*8.1*	*6.7*	*4.7*	*n/a*	*n/a*
Private equities	**18.4**	**5.2**	**4.6**	**(3.3)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*10.2*	*10.1*	*8.7*	*5.7*	*n/a*	*n/a*
Private income	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*	*n/a*
Timberland Investments*	**(4.9)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
*CPI plus 4%**	*4.2*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Total Endowment portfolio	**15.2**	**7.7**	**22.5**	**(11.3)**	**3.3**	**6.8**
Policy Benchmark	*13.8*	*6.4*	*21.7*	*(11.7)*	*3.4*	*6.1*
Transition portfolio	**n/a**	**n/a**	**n/a**	**0.5**	**5.3**	**n/a**
Overall Return	**15.2**	**7.7**	**22.5**	**(11.0)**	**4.2**	**7.1**

* Returns from Timberland Investments are for nine months.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Alberta Heritage Scholarship Fund as at March 31, 2006 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA HERITAGE SCHOLARSHIP FUND

STATEMENT OF FINANCIAL POSITION
March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 520,616	$ 249,274
Transfers receivable	350	359
Receivable from sale of investments	1,950	-
Administration expense receivable	-	9
	$ 522,916	$ 249,642
Liabilities		
Liabilities for investment purchases	$ 2,000	$ -
Administration expense payable	9	-
	2,009	-
Net Assets (Note 6)	520,907	249,642
	$ 522,916	$ 249,642

STATEMENT OF OPERATIONS AND NET ASSETS
For the Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 7)	$ 12,818	$ 43,783	$ 20,878
Transfers from the General Revenue Fund (Note 6b)	-	250,000	-
Transfers from Province of Alberta	200	350	359
Other contributions	40	38	80
Scholarships	(23,660)	(22,906)	(23,029)
Change in Net Assets	$ (10,602)	271,265	(1,712)
Net Assets at beginning of year		249,642	251,354
Net Assets at end of year		$ 520,907	$ 249,642

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

ALBERTA HERITAGE SCHOLARSHIP FUND

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating transactions		
Net investment income	$ 43,783	$ 20,878
Non-cash items included in net investment income	(2,222)	(2,193)
	41,561	18,685
Increase in receivables	(1,932)	(250)
Increase in payables	2,009	-
Cash provided by operating transactions	41,638	18,435
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	19,272	73,436
Purchase of investments	(280,984)	(69,681)
Cash (applied to) provided by investing transactions	(261,712)	3,755
Transfers		
Transfers from the General Revenue Fund	250,000	-
Transfers from the Province of Alberta	350	359
Other contributions	38	80
Transfers to Advanced Education for scholarships	(22,906)	(23,029)
Cash provided by (applied to) transfers	227,482	(22,590)
Increase (decrease) in cash	7,408	(400)
Cash at beginning of year	5,082	5,482
Cash at end of year	$ 12,490	$ 5,082
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 12,490	$ 5,082

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 ($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act,* Chapter A 24, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for scholarships while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 2 (continued)

gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures contracts, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3 and Schedules A to E.

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

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private real estate, absolute return strategies and other private placements. The fair value of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

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

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

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 2 (continued)

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

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

(v) The fair value of absolute return strategy investments are estimated by external managers.

(vi) The fair value of timberland investments are appraised annually by independent third party evaluators.

(vii) The fair value of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 3 PORTFILIO INVESTMENTS

	2006			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-Income Securities (Schedule A)	($ thousands)			($ thousands)		
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 12,490	$ 12,490	2.2	$ 5,082	$ 5,082	1.9
Canadian Dollar Public Bond Pool (b)	133,831	132,602	23.7	60,081	60,807	23.1
Private Mortgage Pool (c)	12,069	12,636	2.3	9,067	9,838	3.7
Currency Alpha Pool (d)	356	365	0.1	-	-	-
Tactical Asset Allocation Pool (e)	615	594	0.1	521	522	0.2
	159,361	158,687	28.4	74,751	76,249	28.9
Canadian Equities (Schedule B)						
Domestic Passive Equity Pooled Fund (f)	62,483	64,301	11.5	28,235	28,796	10.9
Canadian Pooled Equity Fund (g)	30,893	37,903	6.8	14,530	17,508	6.6
Canadian Equity Enhanced Index Pool (h)	16,213	18,583	3.3	8,581	9,391	3.6
Canadian Large Cap Pool (i)	14,583	14,750	2.6	5,070	5,601	2.1
Growing Equity Income Pool (j)	5,249	7,077	1.3	4,050	4,814	1.8
Canadian Multi-Cap Pool (k)	9,407	9,654	1.7	3,973	3,976	1.5
Tactical Asset Allocation Pool Canadian futures contracts (e)	(3,105)	(3,105)	(1.0)	(2,663)	(2,663)	(1.0)
	135,723	149,163	26.2	61,776	67,423	25.5
United States Equities (Schedule C)						
S&P 500 Index Fund (l)	70,292	75,592	13.5	33,404	34,440	13.1
US Large Cap Equity Pool	-	-	-	6	6	-
US Small/Mid Cap Equity Pool (m)	9,390	11,151	2.0	4,871	5,207	2.0
Growing Equity Income Pool (j)	2,362	2,192	0.4	772	767	0.3
Tactical Asset Allocation Pool US futures contracts (e)	3,134	3,134	1.0	2,677	2,677	1.0
	85,178	92,069	16.9	41,730	43,097	16.4
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (n)	63,710	70,881	12.7	31,238	30,956	11.8
EAFE Passive Equity Pool (o)	4,099	5,448	1.0	6,556	8,331	3.2
Emerging Markets Equity Pool (p)	4,426	5,701	1.0	2,829	3,122	1.2
EAFE Structured Equity Pool (o)	11,729	11,676	2.1	-	-	-
	83,964	93,706	16.8	40,623	42,409	16.2
Real Estate (Schedule E)						
Private Real Estate Pool (q)	43,210	52,284	9.3	18,618	22,471	8.5
Foreign Private Real Estate Pool (r)	975	956	0.2	937	889	0.3
	44,185	53,240	9.5	19,555	23,360	8.8
Absolute Return Strategies (s)	7,746	7,828	1.4	8,369	8,361	3.2
Private Equities (t)	2,259	2,444	0.4	1,265	1,443	0.6
Private Income (t)	1,579	1,584	0.3	1,205	1,187	0.4
Timberland (u)	621	585	0.1	-	-	-
Total Investments (v)	$ 520,616	$ 559,306	100.0	$ 249,274	$ 263,529	100.0

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	2006	2005
Absolute Return Strategy Pool	1.2	1.2
Canadian Dollar Public Bond Pool	1.4	0.7
Canadian Equity Enhanced Index Pool	1.4	1.8
Canadian Large Cap Equity Pool	0.8	0.2
Canadian Multi-Cap Pool	2.7	1.7
Canadian Pooled Equity Fund	3.1	1.6
Currency Alpha Pool	0.6	-
Domestic Passive Equity Pooled Fund	2.4	1.2
EAFE Active Equity Pool	1.2	0.7
EAFE Passive Equity Pool	1.7	1.8
EAFE Structured Equity Pool	1.1	-
Emerging Markets Pool	0.9	0.7
Foreign Private Equity Pool (02)	1.0	1.0
Foreign Private Real Estate Pool	1.9	1.9
Growing Equity Income Pool	2.6	1.9
Private Equity Pool	2.2	2.2
Private Equity Pool (02)	0.9	0.9
Private Income Pool	0.5	0.5
Private Income Pool 2	1.0	-
Private Mortgage Pool	0.9	0.8
Private Real Estate Pool	1.4	0.8
Standard & Poor's 500 Index Fund	3.3	1.9
Tactical Asset Allocation Pool	1.8	0.8
Timberland Pool	0.9	-
US Small/Mid Cap Equity Pool	0.9	0.6

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2006, securities held by the Pool have an average effective market yield of 4.7% per annum (2005: 4.48% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 3%); 1 to 5 years: 34% (2005: 38%); 5 to 10 years: 33% (2005: 31%); 10 to 20 years: 12% (2005: 12%); and over 20 years: 19% (2005: 16%).

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 3 (continued)

commercial mortgage loans (94.5%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2006, securities held by the Pool have an average effective market yield of 5.27% per annum (2005: 5.29% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 2%); 1 to 5 years: 19% (2005: 22%); 5 to 10 years: 50% (2005: 43%); 10 to 20 years: 10% (2005: 12%); and over 20 years: 19% (2005: 21%).

(d) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in our out of the Pool when the forward foreign exchange contracts settle.

(e) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(g) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection, while remaining sector neutral.

(h) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(i) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(j) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 3 (continued)

(k) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (f)).

(l) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (f)).

(m) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(n) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(o) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicate the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3(f)).

(p) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(q) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(r) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(s) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(t) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP02, PEP04 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 3 (continued)

reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool allows unit holders to participate as equity investors in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(u) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn higher than CPI plus 4.0%.

(v) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and are temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 4 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006.

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				($ thousands)			
Equity index swap contracts	75%	25%	-	$ 108,663	$ 2,248	$ 35,355	$ 332
Interest rate swap contracts	22%	49%	29%	46,364	(131)	13,891	(354)
Forward foreign exchange contracts	100%	-	-	30,644	(21)	15,779	205
Cross-currency interest rate swaps	14%	34%	52%	32,377	2,455	13,896	201
Credit default swap contracts	2%	5%	93%	46,397	111	3,441	34
Bond index swap contracts	100%	-	-	9,738	1,256	1,182	8
Equity index futures contracts	100%	-	-	24,020	443	5,740	68
				$ 298,203	$ 6,361	$ 89,284	$ 494

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

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

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2005-2006 fiscal year:

Fixed-income securities	33% to 23%
Equities	67% to 77%

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 6 NET ASSETS

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

	Cumulative since 1981	
	2006	**2005**
	($ thousands)	
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 100,000	$ 100,000
Transfers from the General Revenue Fund (b)	250,000	-
Other contributions	11,627	11,239
Accumulated investment income	488,717	444,934
Accumulated scholarship payments (a)	(329,437)	(306,531)
Net Assets	$ 520,907	$ 249,642

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

(b) Section 2.1 of the Act and section 7 of the *Access to the Future Act* provides that the Fund shall receive up to $1 billion, of which the Fund received $250 million during the current year.

NOTE 7 NET INVESTMENT INCOME

	2006	**2005**
	($ thousands)	
Deposits and fixed-income securities	$ 6,946	$ 4,781
Canadian equities	22,770	10,466
United States equities	1,811	(906)
Non-North American equities	9,001	4,652
Real estate	2,578	1,364
Absolute return strategies	327	440
Private equities	228	95
Private income	231	62
Timberland	(11)	-
Investment income	$ 43,881	$ 20,954
Direct administration expense (Note 8)	(98)	(76)
Net investment income	$ 43,783	$ 20,878

Investment income is comprised of interest, dividends, amortization of discount or premium, swap income, security lending income and realized gains and losses, net of write-downs on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2006 includes writedowns of $1,260 (2005: $628).

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	2006	2005 (restated)
	($ thousands)	
Direct fund expenses (Note 7)	$ 98	$ 76
External management fees	654	496
Internal management expenses	141	82
Total	$ 893	$ 654
Expenses as a percentage of net assets at fair value	0.160%	0.262%

NOTE 9 INVESTMENT PERFORMANCE (SCHEDULE F)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	16.5%	6.7%
Benchmark return (1)	15.3%	6.1%

(1) The overall benchmark return for year ended March 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to 2006 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 13,806	$ 13,806	$ 5,727	$ 5,727
Fixed-income securities (a)				
Corporate, public and private	82,130	80,977	35,758	36,327
Government of Canada, direct and guaranteed	37,050	36,400	18,229	18,236
Provincial, direct and guaranteed:				
Alberta	808	786	35	37
Other provinces	23,068	24,185	13,780	14,664
Municipal	637	671	735	771
	143,693	143,019	68,537	70,035
Receivable from sale of investments and accrued investment income	3,093	3,093	837	837
Accounts payable and accrued liabilities	(1,231)	(1,231)	(350)	(350)
	1,862	1,862	487	487
	$ 159,361	$ 158,687	$ 74,751	$ 76,249

(a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.75% per annum (2005: 4.59% per annum) and the following term structure based on principal amount:

	2006	2005
	%	%
under 1 year	3	3
1 to 5 years	31	37
5 to 10 years	35	30
10 to 20 years	12	11
over 20 years	19	19
	100	100

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 739	$ 739	$ 510	$ 510
Public equities (a) (b)				
Financials	40,665	44,505	19,835	21,659
Energy	34,757	41,245	11,197	13,726
Materials	18,725	21,860	8,912	9,580
Industrials	7,751	8,822	3,226	3,623
Consumer discretionary	8,251	7,636	4,410	4,255
Telecommunication services	6,510	7,002	3,886	4,151
Information technology	6,696	6,090	3,753	3,611
Consumer staples	4,557	4,330	2,591	2,914
Health Care	1,890	1,570	1,057	895
Utilities	1,459	1,449	846	931
	131,261	144,509	59,713	65,345
Small Cap Equity Pool	2,715	2,907	1,195	1,210
Receivable from sale of investments and accrued investment income	3,278	3,278	1,094	1,094
Accounts payable and accrued liabilities	(2,270)	(2,270)	(736)	(736)
	1,008	1,008	358	358
	$ 135,723	$ 149,163	$ 61,776	$ 67,423

(a) The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $52,933 (2005: $25,376).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 324	$ 324	$ 287	$ 287
Public equities (a) (b)				
Financials	18,290	19,557	8,705	8,747
Information technology	12,932	13,990	6,323	6,422
Health Care	10,833	11,612	5,511	5,494
Industrials	10,383	11,379	5,106	5,387
Consumer discretionary	8,906	9,604	4,754	5,034
Energy	7,324	8,590	3,240	3,682
Consumer staples	7,669	7,769	3,952	3,971
Materials	2,789	3,190	1,548	1,679
Utilities	2,726	2,890	1,445	1,554
Telecommunication services	2,471	2,633	1,181	1,162
	84,323	91,214	41,765	43,132
Receivable from sale of investments and accrued investment income	3,431	3,431	181	181
Accounts payable and accrued liabilities	(2,900)	(2,900)	(503)	(503)
	531	531	(322)	(322)
	$ 85,178	$ 92,069	$ 41,730	$ 43,097

(a) The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $40,398 (2005: $15,719).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's (S&P) 500 Index.

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES Schedule D

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 2,159	$ 2,159	$ 796	$ 796
Public equities (a) (b)				
Financials	22,282	26,002	9,945	10,746
Industrials	10,101	11,949	4,528	4,863
Consumer discretionary	9,507	10,602	5,374	5,429
Materials	6,153	7,289	3,260	3,575
Energy	5,720	6,675	3,261	3,557
Health Care	5,955	6,193	2,552	2,445
Information technology	5,683	6,054	2,079	2,041
Consumer staples	5,364	5,349	2,310	2,357
Telecommunication services	5,317	4,907	3,525	3,451
Utilities	3,520	3,899	1,697	1,778
	79,602	88,919	38,531	40,242
Emerging markets pooled funds	1,786	2,211	1,222	1,297
Receivable from sale of investments and accrued investment income	2,058	2,058	508	508
Accounts payable and accrued liabilities	(1,641)	(1,641)	(434)	(434)
	417	417	74	74
	$ 83,964	$ 93,706	$ 40,623	$ 42,409

(a) The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and equity index futures contracts totalling $11,153 (2005: $nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Japan	$ 18,995	$ 20,716	$ 7,105	$ 6,897
United Kingdom	16,597	17,475	8,658	8,738
France	8,033	9,065	3,677	3,935
Germany	5,225	6,050	2,699	2,826
Switzerland	5,433	5,995	2,413	2,517
Netherlands	3,921	4,600	2,088	2,150
Australia	3,017	3,239	1,527	1,801
Italy	2,478	2,830	1,347	1,534
Spain	2,296	2,443	1,064	1,164
Sweden	1,584	1,828	992	1,071
Other	12,023	14,678	6,961	7,609
	$ 79,602	$ 88,919	$ 38,531	$ 40,242

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 29	$ 29	$ 9	$ 9
Real estate (a)				
Office	20,445	25,848	8,739	10,218
Retail	13,780	17,293	6,953	9,100
Industrial	5,232	5,440	1,527	1,775
Residential	2,403	2,353	1,036	1,014
	41,860	50,934	18,255	22,107
Foreign Private Equity Pool	975	956	937	890
Participation units	1,213	1,213	324	324
Accrued income and accounts receivable	108	108	30	30
	$ 44,185	$ 53,240	$ 19,555	$ 23,360

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 26,281	$ 31,013	$ 11,684	$ 14,712
Alberta	9,542	14,258	3,706	4,590
Quebec	5,184	4,657	2,429	2,325
British Columbia	853	1,006	436	480
	$ 41,860	$ 50,934	$ 18,255	$ 22,107

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2006

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

	One Year Return - %					5 Year Compound Annualized
Time-weighted Rates of Return	**2006**	**2005**	**2004**	**2003**	**2002**	**Return**
Short-term fixed Income	**2.9**	**2.7**	**3.0**	**2.9**	**4.1**	**3.0**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**5.7**	**5.6**	**11.6**	**9.7**	**5.9**	**7.7**
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**28.8**	**15.4**	**36.2**	**(17.4)**	**3.4**	**11.6**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*4.9*	*11.7*
United States equities	**8.7**	**(2.0)**	**22.2**	**(30.6)**	**1.4**	**(1.7)**
S&P 500 Index	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*1.6*	*(1.7)*
Non-North American equities	**24.2**	**7.5**	**40.9**	**(29.1)**	**(5.9)**	**4.6**
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*(7.3)*	*3.3*
Real estate	**20.9**	**16.7**	**7.5**	**9.8**	**7.2**	**12.3**
IPD Large Institutional All Property Index	*18.1*	*7.1*	*5.7*	*8.9*	*9.9*	*9.8*
Absolute return strategies	**5.2**	**5.5**	**10.7**	**1.6**	**n/a**	**n/a**
HFRX Global Hedged Index	*10.1*	*8.1*	*6.7*	*4.7*	*n/a*	*n/a*
Private equities	**15.3**	**(1.1)**	**1.3**	**(3.5)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*10.2*	*10.1*	*8.7*	*5.7*	*n/a*	*n/a*
Private income	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*	*n/a*
Timberland Investments*	**(4.9)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
*CPI plus 4%**	*4.2*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Overall	**16.5**	**8.1**	**24.0**	**(13.3)**	**2.3**	**6.7**
Policy Benchmark	***15.3***	***6.7***	***23.4***	***(13.7)***	***2.7***	***6.1***

* Returns for Timberland Investments are for nine months.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2006 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 674,048	$ 538,344
Receivable from sale of investments	3,250	-
Administration expense receivable	-	15
	$ 677,298	$ 538,359
Liabilities		
Accounts payable	$ 1	$ 940
Net Assets (Note 6)	677,297	537,419
	$ 677,298	$ 538,359

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 7)	$ 19,774	$ 57,853	$ 29,234
Transfer from the General Revenue Fund (Note 6a)	-	100,000	-
Transfers to the Alberta Heritage Foundation for Science and Engineering Research (Note 6b)	(23,092)	(17,975)	(13,445)
Change in net assets	$ (3,318)	139,878	15,789
Net assets at beginning of year		537,419	521,630
Net assets at end of year		$ 677,297	$ 537,419

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating transactions		
Net investment income	$ 57,853	$ 29,234
Non-cash items included in net investment income	(3,874)	4,413
	53,979	33,647
Increase in receivables	(3,235)	(1)
(Decrease) increase in payables	(939)	940
Cash provided by operating transactions	49,805	34,586
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	60,255	136,169
Purchase of investments	(196,068)	(151,461)
Cash applied to investing transactions	(135,813)	(15,292)
Transfers		
Transfers from the General Revenue Fund	100,000	-
Transfers to the Foundation	(17,975)	(13,445)
Cash provided by (applied to) transfers	82,025	(13,445)
(Decrease) increase in cash	(3,983)	5,849
Cash at beginning of year	10,261	4,412
Cash at end of year	$ 6,278	$ 10,261
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 6,278	$ 10,261

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 ($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Science and Engineering Research Endowment Fund ("the Fund") operates under the authority of the *Alberta Heritage Foundation for Science and Engineering Research Act* ("the Act"), Chapter A 22, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund has been managed with the objectives of providing an annual level of income for transfer to the Alberta Heritage Foundation for Science and Engineering while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expenses from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 2 (continued)

recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expenses from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3 and Schedules A to E.

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

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments. The fair values of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair values of investments held either by the Fund or by pooled investment funds are determined as follows:

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

(ii) Private fixed-income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 2 (continued)

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

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

(v) The fair value of absolute return strategy investments is estimated by external managers.

(vi) The fair value of timberland investments are appraised annually by independent third party evaluators.

(vii) The fair values of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

	2006			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
	($ thousands)			($ thousands)		
Fixed-Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 6,278	$ 6,278	0.9	$ 10,261	$ 10,261	1.9
Canadian Dollar Public Bond Pool (b)	175,613	177,699	24.9	140,906	145,692	26.5
Private Mortgage Pool (c)	26,096	26,771	3.8	24,005	25,016	4.6
Currency Alpha Pool (d)	674	692	0.1	-	-	-
Tactical Asset Allocation Pool (e)	1,285	1,242	0.2	1,090	1,092	0.2
	209,946	212,682	29.9	176,262	182,061	33.2
Canadian Equities (Schedule B)						
Domestic Passive Equity Pooled Fund (f)	51,829	49,700	7.0	36,838	34,494	6.3
Canadian Pooled Equity Fund (g)	28,529	30,255	4.3	24,136	22,306	4.1
Canadian Equity Enhanced Index Pool (h)	11,618	13,687	1.9	10,628	11,631	2.1
Canadian Large Cap Pool (i)	11,920	10,900	1.5	7,521	7,055	1.3
Growing Equity Income Pool (j)	4,538	6,266	0.9	5,673	6,744	1.2
Canadian Multi-Cap Pool (k)	6,922	6,985	1.0	4,921	4,925	0.9
Tactical Asset Allocation Pool Canadian futures contracts (e)	(6,492)	(6,492)	(1.0)	(5,569)	(5,569)	(1.0)
	108,864	111,301	15.6	84,148	81,586	14.9
United States Equities (Schedule C)						
S&P 500 Index Fund (l)	89,950	95,650	13.4	65,728	67,771	12.3
US Large Cap Equity Pool	-	-	-	5	5	-
US Small/Mid Cap Equity Pool (m)	16,024	18,202	2.5	12,084	12,116	2.2
Portable Alpha United States Equity Pool (n)	18,700	18,608	2.6	15,794	15,407	2.8
Growing Equity Income Pool (j)	2,041	1,941	0.3	1,082	1,074	0.2
Tactical Asset Allocation Pool US futures contracts (e)	6,555	6,555	1.0	5,598	5,598	1.0
	133,270	140,956	19.8	100,291	101,971	18.5
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (o)	100,278	109,347	15.4	83,845	81,562	14.9
EAFE Passive Equity Pool (p)	10,947	13,435	1.9	17,715	20,548	3.7
Emerging Market Equity Pool (q)	5,342	7,338	1.0	5,657	6,233	1.1
EAFE Structured Equity Pool (p)	15,999	15,615	2.2	-	-	-
	132,566	145,735	20.5	107,217	108,343	19.7
Real Estate (Schedule E)						
Private Real Estate Pool (r)	50,947	63,247	8.8	37,158	42,691	7.8
Foreign Private Real Estate Pool (s)	1,929	1,891	0.3	1,853	1,758	0.3
	52,876	65,138	9.1	39,011	44,449	8.1
Absolute Return Strategies (t)	24,073	24,174	3.4	26,015	25,817	4.7
Private Equity Pools (u)	6,442	6,597	0.9	2,869	2,708	0.5
Private Income Pools (u)	3,341	3,351	0.5	2,531	2,493	0.4
Timberland (v)	2,670	2,515	0.3	-	-	-
Total Investments (w)	$ 674,048	$ 712,449	100.0	$ 538,344	$ 549,428	100.0

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2006	2005
Absolute Return Strategy Pool	3.7	3.7
Canadian Dollar Public Bond Pool	1.8	1.6
Canadian Equity Enhanced Index Pool	1.1	2.2
Canadian Large Cap Equity Pool	0.6	0.3
Canadian Multi-Cap Pool	1.9	2.1
Canadian Pooled Equity Fund	2.5	2.1
Currency Alpha Pool	1.2	-
Domestic Passive Equity Pooled Fund	1.9	1.5
EAFE Active Equity Pool	1.9	1.75
EAFE Passive Equity Pool	4.3	4.5
EAFE Structured Equity Pool	1.5	-
Emerging Markets Equity Pool	1.2	1.5
Foreign Private Equity Pool (02)	1.7	1.7
Foreign Private Equity Pool (05)	4.4	-
Foreign Private Real Estate Pool	3.7	3.7
Growing Equity Income Pool	2.3	2.6
Portable Alpha United States Equity Pool	4.3	4.3
Private Equity Pool (02)	1.7	1.8
Private Equity Pool (04)	4.0	4.0
Private Income Pool	1.0	1.1
Private Income Pool 2	3.8	-
Private Mortgage Pool	2.0	2.1
Private Real Estate Pool	1.7	1.5
Standard & Poor's 500 Index Fund	4.2	3.7
Tactical Asset Allocation Pool	3.9	1.6
Timberland Pool	3.9	-
US Small/Mid Cap Equity Pool	1.5	1.3

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2006, securities held by the Pool have an average effective market yield of 4.7% per annum (2005: 4.48% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 3%); 1 to 5 years: 34% (2005: 38%); 5 to 10 years: 33% (2005: 31%); 10 to 20 years: 12% (2005: 12%); and over 20 years: 19% (2005: 16%).

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 3 (continued)

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.5%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2006, securities held by the Pool have an average effective market yield of 5.27% per annum (2005: 5.29% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 2%); 1 to 5 years: 19% (2005: 22%); 5 to 10 years: 50% (2005: 43%); 10 to 20 years: 10% (2005: 12%); and over 20 years: 19% (2005: 21%).

(d) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(e) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(g) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection, while remaining sector neutral.

(h) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(i) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(j) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 3 (continued)

(k) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3(f)).

(l) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3(f)).

(m) The U.S. Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(n) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(o) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(p) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicate the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3(f)).

(q) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued to the Pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(s) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(t) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 3 (continued)

(u) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool allows unit holders to participate as equity investors in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(v) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

(w) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed-to-fixed and fixed-to-floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 4 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006:

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				($ thousands)			
Equity index swap contracts	75%	25%	-	$ 123,929	$ 2,269	$ 65,884	$ 89
Forward foreign exchange contracts	100%	-	-	65,058	(70)	41,166	567
Interest rate swap contracts	22%	49%	29%	51,255	(108)	20,154	(499)
Cross-currency interest rate swaps	14%	34%	52%	36,133	2,701	26,140	37
Credit default swap contracts	2%	5%	93%	59,923	142	5,502	64
Bond index swap contracts	100%	-	-	11,639	1,302	2,832	20
Equity index futures contracts	100%	-	-	35,294	755	13,701	287
				$ 383,231	$ 6,991	$ 175,379	$ 565

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

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

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2005-2006 fiscal year:

Fixed-income securities	27.5% to 17.5%
Equities	72.5% to 82.5%

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 6 NET ASSETS

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

	Cumulative since 2000	
	2006	2005
	($ thousands)	
Transfers from the General Revenue Fund (a)	$ 621,430	$ 521,430
Accumulated investment income	106,153	48,300
Accumulated transfers to the Foundation (b)	(50,286)	(32,311)
Net Assets	$ 677,297	$ 537,419

(a) The total accumulated contributions from the GRF include an initial amount of $500 million deposited during the 2000-2001 fiscal year, $21.43 million during the 2003-2004 fiscal year and $100 million during the current fiscal year, persuant to Section 8 of the *Access to the Future Act*. Under the *Access to the Future Act*, the Fund shall be increased by $500 million in amounts considered appropriate by the Minister of Finance.

(b) In accordance with section 8(1) of the *Alberta Heritage Foundation for Science and Engineering Research Act* (the Act), the Minister of Finance must, at the request of the Foundation, pay from the Endowment Fund to the Foundation, money that, in the opinion of the trustees, is required by the Foundation for the furtherance of its objectives. Section 8 of the Act limits annual payments from the Fund to the Foundation for 2004-2005 and subsequent fiscal years. Payments to the Foundation may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceeding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year.

	2006
	($ thousands)
Accumulated unused spending limit at March 31, 2005	$ 7,902
4.5% of average market value on March 31, 2003-05	22,444
Spending limit for the year ended March 31, 2006	30,346
Transfers to Foundation during the year	(17,975)
Accumulated unused spending limit at March 31, 2006	12,371
4.5% of average market value on March 31, 2004-06	26,872
Spending limit for the year ended March 31, 2007	$ 39,243

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 7 NET INVESTMENT INCOME

	2006	2005
	($ thousands)	
Deposits and fixed-income securities	$ 12,657	$ 11,445
Canadian equities	20,688	5,607
United States equities	3,392	(2,481)
Non-North American equities	15,930	10,863
Real estate	3,618	2,428
Absolute return strategies	990	1,357
Private equities	279	2
Private income	484	130
Timberland	(48)	-
Investment income	$ 57,990	$ 29,351
Direct administration expense (Note 8)	(137)	(117)
Net investment income	$ 57,853	$ 29,234

Investment income is comprised of interest, dividends, amortization of discount or premium, swap income, security lending income and realized gains and losses, net of write-downs on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2006 includes writedowns of $1,851 (2005: $985).

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	2006	2005 (restated)
	($ thousands)	
Direct fund expenses (Note 7)	$ 137	$ 117
External management fees	1,590	1,173
Internal management expenses	205	146
Total	$ 1,932	$ 1,436
Expenses as a percentage of net assets at fair value	0.271%	0.267%

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 9 INVESTMENT PERFORMANCE (SCHEDULE F)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	14.4%	6.7%
Benchmark return (1)	13.5%	6.1%

(1) The overall benchmark return for year ended March 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to 2006 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 8,333	$ 8,333	$ 11,724	$ 11,724
Fixed income securities (a)				
Corporate, public and private	117,374	117,792	86,418	88,398
Government of Canada, direct and guaranteed	48,963	49,117	42,676	43,615
Provincial, direct and guaranteed:				
Alberta	1,059	1,053	81	89
Other provinces	30,819	32,924	32,464	35,213
Municipal	835	900	1,724	1,847
	199,050	201,786	163,363	169,162
Receivable from sale of investments and accrued investment income	4,339	4,339	2,022	2,022
Accounts payable and accrued liabilities	(1,776)	(1,776)	(847)	(847)
	2,563	2,563	1,175	1,175
	$ 209,946	$ 212,682	$ 176,262	$ 182,061

(a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.77% per annum (2005: 4.59% per annum) and the following term structure based on principal amount:

	2006	2005
	%	%
under 1 year	3	3
1 to 5 years	31	35
5 to 10 years	35	33
10 to 20 years	12	12
over 20 years	19	17
	100	100

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 568	$ 568	$ 661	$ 661
Public equities (a) (b)				
Financials	32,037	33,034	26,710	26,177
Energy	28,026	30,889	14,821	16,579
Materials	14,920	16,304	12,291	11,539
Industrials	6,376	6,660	4,503	4,403
Consumer discretionary	7,054	5,775	6,317	5,182
Telecommunication services	5,114	5,181	5,317	5,039
Information technology	5,387	4,491	5,179	4,308
Consumer staples	3,792	3,272	3,629	3,557
Health Care	1,611	1,175	1,592	1,087
Utilities	1,213	1,084	1,240	1,148
	105,530	107,865	81,599	79,019
Small Cap Pooled Fund	2,001	2,103	1,480	1,498
Receivable from sale of investments and accrued investment income	2,566	2,566	1,358	1,358
Accounts payable and accrued liabilities	(1,801)	(1,801)	(950)	(950)
	765	765	408	408
	$ 108,864	$ 111,301	$ 84,148	$ 81,586

(a) The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $44,673 (2005: $32,887).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 529	$ 529	$ 1,488	$ 1,488
Public equities (a) (b)				
Financials	28,025	29,418	20,429	20,311
Information technology	20,461	21,595	15,283	15,297
Health care	17,121	17,977	13,250	13,105
Industrials	16,267	17,445	12,293	12,696
Consumer discretionary	14,032	14,766	11,558	11,983
Energy	11,598	13,142	7,994	8,800
Consumer staples	11,695	11,724	9,498	9,483
Materials	4,466	4,968	3,796	3,987
Utilities	4,254	4,402	3,433	3,603
Telecommunication services	3,872	4,040	2,831	2,780
	131,791	139,477	100,365	102,045
Receivable from sale of investments and accrued investment income	4,655	4,655	813	813
Accounts payable and accrued liabilities	(3,705)	(3,705)	(2,375)	(2,375)
	950	950	(1,562)	(1,562)
	$ 133,270	$ 140,956	$ 100,291	$ 101,971

(a) The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $72,011 (2005: $46,698).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 3,299	$ 3,299	$ 2,062	$ 2,062
Public equities (a) (b)				
Financials	35,236	40,591	26,347	27,513
Industrials	16,006	18,680	12,112	12,599
Consumer discretionary	15,160	16,612	14,285	13,947
Materials	9,619	11,320	8,612	9,173
Energy	9,155	10,435	8,668	9,139
Health care	9,627	9,768	6,857	6,320
Information technology	8,994	9,458	5,577	5,286
Consumer staples	8,626	8,407	6,195	6,090
Telecommunication services	8,526	7,679	9,368	8,886
Utilities	5,626	6,098	4,505	4,553
	126,575	139,048	102,526	103,506
Emerging markets pooled funds	2,150	2,846	2,445	2,591
Receivable from sale of investments and accrued investment income	2,911	2,911	1,317	1,317
Accounts payable and accrued liabilities	(2,369)	(2,369)	(1,133)	(1,133)
	542	542	184	184
	$ 132,566	$ 145,735	$ 107,217	$ 108,343

(a) The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and equity index futures contracts totalling $14,916 (2005: $nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Japan	$ 30,432	$ 32,649	$ 19,118	$ 17,891
United Kingdom	26,628	27,402	23,003	22,372
France	12,863	14,237	9,881	10,234
Germany	8,353	9,525	7,249	7,350
Switzerland	8,689	9,419	6,483	6,534
Netherlands	6,263	7,199	5,606	5,580
Australia	4,811	5,219	4,101	4,660
Italy	3,992	4,468	3,622	3,984
Spain	3,682	3,872	2,856	3,006
Sweden	2,498	2,879	2,644	2,762
Other	18,364	22,179	17,963	19,133
	$ 126,575	$ 139,048	$ 102,526	$ 103,506

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 35	$ 35	$ 17	$ 17
Real estate (a)				
Office	24,086	31,268	17,457	19,415
Retail	16,234	20,919	13,890	17,287
Industrial	6,163	6,580	3,051	3,372
Residential	2,831	2,847	2,070	1,927
	49,314	61,614	36,468	42,001
Foreign Private Equity Pool	1,929	1,891	1,853	1,758
Participation units	1,467	1,467	616	616
Accrued income and accounts receivable	131	131	57	57
	$ 52,876	$ 65,138	$ 39,011	$ 44,449

The following is a summary of real estate investments by geographic location:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 30,961	$ 37,516	$ 23,342	$ 27,951
Alberta	11,242	17,247	7,403	8,720
Quebec	6,106	5,634	4,852	4,418
British Columbia	1,005	1,217	871	912
	$ 49,314	$ 61,614	$ 36,468	$ 42,001

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2006

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

Time-weighted Rates of Return	One Year Return - % 2006	2005	2004	2003	2002	Five Year Compound Annualized Return
Short-term fixed Income	**2.9**	**2.7**	**3.0**	**2.9**	**4.0**	**3.1**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**5.7**	**5.6**	**11.6**	**9.6**	**5.9**	**7.7**
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**29.0**	**15.5**	**36.6**	**(17.1)**	**4.2**	**11.9**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*4.9*	*11.7*
United States equities	**8.5**	**(1.7)**	**22.1**	**(30.4)**	**1.4**	**(1.7)**
S&P 1500 Index	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*1.6*	*(1.7)*
Non-North American equities	**23.9**	**7.4**	**40.9**	**(29.1)**	**(5.6)**	**4.6**
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*(7.3)*	*3.3*
Real estate	**20.7**	**16.9**	**7.5**	**9.8**	**7.3**	**12.1**
IPD Large Institutional All Property Index	*18.1*	*7.1*	*5.7*	*8.9*	*9.9*	*9.8*
Absolute return strategies	**5.2**	**5.5**	**10.7**	**1.6**	**n/a**	**n/a**
HFRX Global Hedged Index	*10.1*	*8.1*	*6.7*	*4.7*	*n/a*	*n/a*
Private equities	**12.3**	**0.6**	**1.2**	**(4.3)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*10.2*	*10.1*	*8.7*	*5.7*	*n/a*	*n/a*
Private income	**21.3**	**5.4**	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*	*n/a*
Timberland Investments*	**(4.9)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
*CPI plus 4%**	*4.2*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Overall	**14.4**	**6.7**	**22.5**	**(10.2)**	**3.0**	**6.7**
Policy Benchmark	***13.5***	***5.4***	***21.7***	***(10.6)***	***3.1***	***6.1***

* Returns from Timberland Investments are for nine months.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

MARCH 31, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Alberta Risk Management Fund as at March 31, 2006 and the statement of operations for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA RISK MANAGEMENT FUND

BALANCE SHEET

As at March 31, 2006

	2006	2005
	($ thousands)	
ASSETS		
Cash and cash equivalents (Note 3)	$ 22,215	$ 19,970
Receivable from Province of Alberta	39	52
Accrued recoveries (Note 4)	189	390
	$ 22,443	$ 20,412
LIABILITIES AND NET LIABILITIES		
Liabilities		
Accounts payable (Note 5)	$ 392	$ 529
Liability for accrued claims (Note 6)	28,049	25,729
	28,441	26,258
Net liabilities	(5,998)	(5,846)
	$ 22,443	$ 20,412

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

STATEMENT OF OPERATIONS

Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
		($ thousands)	
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 8,035	$ 8,048	$ 7,243
Other entities	962	389	419
Subrogation and salvage	250	167	348
Interest	550	685	522
	9,797	9,289	8,532
Expenses			
Insurance claims	4,000	6,564	4,089
Insurance premiums to insurers	2,900	1,351	2,524
Administration	1,277	1,254	1,226
Other services	215	272	348
	8,392	9,441	8,187
Net revenue (expense)	$ 1,405	(152)	345
Net liabilities at beginning of year		(5,846)	(6,191)
Net liabilities at end of year		$ (5,998)	$ (5,846)

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

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

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The accounting policies of significance to the Fund are as follows:

(a) Claims provisions, including provisions for claims incurred but not reported, are based on estimates made by management. The provisions are adjusted in the period when more experience is acquired and as additional information is obtained.

(b) In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material in these financial statements exists in the estimation of the Fund's liability for accrued claims. Uncertainty arises because the Fund's actual loss experience may differ, perhaps significantly, from assumptions used in the estimation of the Fund's liability for accrued claims. (see Note 6(b)).

Liability for accrued claims, recorded as $28.05 million (2005 $25.73 million) in these financial statements, is subject to measurement uncertainty. This is because the ultimate disposition of claims incurred prior to the financial statement date is subject to the outcome of events that have not yet occurred, and any estimate of future costs has inherent limitations due to management's limited ability to predict precisely the aggregate course of future events. Based on an actuarial sensitivity analysis, an estimate of claim liabilities at the high end of a reasonable range is $33.66 million as at March 31, 2006, or $5.61 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 6(b)).

ALBERTA RISK MANAGEMENT FUND

Note 2 (continued)

While best estimates have been used in reporting the Fund's liability for accrued claims, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are adjusted in the period when the actual loss values are known.

(c) The fair values of cash and cash equivalents, accounts receivable, accrued recoveries, accounts payable and liability for accrued claims are estimated to approximate their book values.

(d) A statement of changes in cash flows is not provided as disclosure in these financial statements is considered adequate.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2006, securities held by the CCITF have an average effective market yield of 4.0% (2005 2.8%) per annum and an average duration of 120 days (2005 131 days).

NOTE 4 ACCRUED RECOVERIES

Accrued recoveries represent management's best estimates of amounts that will be recovered for subrogation or salvage. All amounts are considered to be good and recoverable when due.

NOTE 5 ACCOUNTS PAYABLE

	2006	2005
	($ thousands)	
Payable to Department of Finance	$ 379	$ 405
Other	13	124
	$ 392	$ 529

ALBERTA RISK MANAGEMENT FUND

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

	2006	2005
	($ thousands)	
Outstanding claims case reserves (a)	$ 14,873	$ 13,462
Incurred but not reported losses (b)	13,176	12,267
	$ 28,049	$ 25,729

(a) Outstanding Claims Case Reserves

Liability for outstanding claims case reserves represents management's best estimates of outstanding losses and related claims expenses which have been reported but not yet closed, net of participant deductibles and recoveries, if any. The amount reflects management's best estimate of the ultimate cost of settlement after consultation with legal counsel if required.

(b) Incurred But Not Reported (IBNR) Losses

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but not yet reported. In addition to a provision for claims that have occurred but are not yet reported, the amount includes a provision for development of outstanding case reserves, a provision for reopened claims, and a provision for claims that have been reported but are not yet recorded in the books.

An actuarial review of the Fund's liability for IBNR losses was carried out as at March 31, 2006 by KPMG LLP, taking into account the historical claims experience up to that date.

The actuarial review was determined using generally accepted actuarial practices in Canada, including the selection of appropriate assumptions and methods. The assumptions used were developed based on the actuary's best estimates of the Fund's expected loss experience. After consultation with the Fund's actuary, management approved these best estimates.

ALBERTA RISK MANAGEMENT FUND

Note 6 (continued)

The major assumptions used were:

	2006	2005
Trend rate		
General liability	5%	5%
Automobile liability	5%	5%
Property	3%	3%
Auto physical damage	5%	3%
Crime	3%	3%
Loss development factor		
Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada		
Selected loss rate		
General liability		
Loss per person (Alberta population)	$ 1.35	$ 1.20
Automobile liability		
Loss per vehicle	$ 125	$ 125
Property		
Loss per $million property values	$ 125	$ 250
Auto physical damage		
Loss per vehicle	$ 118	$ 100
Crime		
Loss per class A and B employee	$ 55	$ 50

Liability for IBNR losses represents the difference between the actuary's estimated ultimate incurred loss and the amount of incurred loss reported on the effective date of review, adjusted for the portion of any individual large claims ceded to third party insurers.

The Fund's future experience will inevitably differ, perhaps significantly, from the actuary's estimate due to the unpredictable nature of new claim types, the random occurrence of large losses and the outcome of future contingent events. Any differences between the actuary's estimate and future experience will emerge as gains or losses in future reviews and will affect the financial position of the Fund.

ALBERTA RISK MANAGEMENT FUND

Note 6 (continued)

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2006:

Sensitivity Tests	Increase in Net Liabilities
	($ million)
Increase the confidence level of the liability for accrued claims estimate from 50% to 90%	$ 5.6
Increase the loss development factor assumption by changing the tail factor by coverage to between 1.05 and 1.10, and increase the trend factor assumption by line of business to between 8 and 10% by coverage	4.8
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors	4.5

NOTE 7 CONTINGENT LIABILITIES

At March 31, 2006, the Province was named as defendant in various legal actions relating to insurance claims. The resulting loss, if any from these claims and other potential claims cannot be determined.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2006 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of the Fund. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 26, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

BALANCE SHEET

As At March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Investments (Note 3)	$ 86,212	$ 38,437
Receivable from the Province of Alberta	413	394
	86,625	38,831
Liabilities		
Liability for investment purchases	40,525	-
	46,100	38,831
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Notes 2(c) and 6)	46,100	38,831
Net Assets	$ -	$ -

STATEMENT OF CHANGES IN NET ASSETS

Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Increase in assets		
Contributions from the Province of Alberta		
Current service	$ 5,175	$ 5,297
Unfunded liabilities	862	862
Investment income	1,232	826
	7,269	6,985
Decrease in assets		
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	7,269	6,985
Increase in net assets	-	-
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

The accompanying notes are part of these financial statements.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 AUTHORITY AND PURPOSE

The Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the Provincial Judges and Masters in Chambers Reserve Fund Directive (*Treasury Board Directive 03/01*).

The Reserve Fund is established to collect contributions from the Province of Alberta and to invest the funds which are reserved to meet future benefit payments of the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan). The Unregistered Plan is established to provide additional pension benefits to Provincial Judges and Masters in Chambers whose pensionable earnings are in excess of the *maximum pensionable salary limit* under the federal *Income Tax Act* effective April 1, 1998.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments of the Unregistered Plan.

The Reserve Fund's investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Reserve Fund or by pooled investment funds are explained in the following paragraphs:

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

Due to their short term nature, the fair values of deposits, receivables, accrued investment income, payables and accrued liabilities are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Note 2 (continued)

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

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

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Liabilities

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta.

As at March 31, 2006, current service contributions rates remained unchanged at 36.04% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the *maximum pensionable salary limit*. The rate was determined by the Unregistered Plan's actuary and approved by the Minister of Finance.

The unfunded liability arising as a result of judicial salary increases recommended by the 2003 Judicial Compensation Commission is financed by additional contributions from the Province of Alberta. The contribution rate is set on the basis that the additional contributions will eliminate the unfunded liability over 15 years.

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the Unregistered Plan over the long term.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

NOTE 3 INVESTMENTS (SCHEDULES A TO D)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 45,683	53.0	$ 38,437	100.0
Canadian Dollar Public Bond Pool (b)	16,525	19.2	-	-
Total fixed income securities	62,208	72.2	38,437	100.0
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (c)	3,325	3.9	-	-
Canadian Pooled Equities Fund (d)	2,025	2.3	-	-
External Managers				
Canadian Equity Enhanced Index Pool (e)	1,000	1.1	-	-
Canadian Large Cap Equity Pool (f)	700	0.8	-	-
Growing Equity Income Pool (g)	420	0.5	-	-
Canadian Multi-Cap Pool (h)	400	0.5	-	-
	7,870	9.1	-	-
United States Equities (Schedule C)				
S&P 500 Pooled Index Fund (i)	7,000	8.1	-	-
External Managers				
US Mid/Small Cap Equity Pool (j)	1,000	1.2		
Growing Equity Income Pool	130	0.1	-	-
	8,130	9.4	-	-
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (k)	6,000	7.0	-	
Emerging Markets Equity Pool (l)	500	0.6	-	-
EAFE Structured Equity Pooled Fund (m)	1,500	1.7	-	-
	8,000	9.3	-	-
Alternative Investment- Equities				
Private Income Pool	4	-	-	-
Total equities	24,004	27.8	-	-
Total investments	$ 86,212	100.0	$ 38,437	100.0

(a) The Consolidated Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Note 3 (continued)

(d) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection while remaining sector neutral.

(e) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(f) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple managers each of whom has a different investment style and market capitalization focus.

(g) The Growing Equity Income Pool is managed with the objective of providing returns higher than the total return of the S&P/TSX Custom Dividend Index over a four-year period. The pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

(h) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

(i) The S&P 500 Pooled Index Fund is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invests in futures, swaps and other structured investments.

(j) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by an external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple investment styles and unique market capitalization focus.

(k) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(l) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Note 3 (continued)

(m) The EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The pooled fund provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn the best possible return at an acceptable level of risk, the Minister has established a long-term policy asset mix of 44% fixed income instruments and 56% equities to the combined investments held by the Reserve Fund and the Unregistered Plan (see Note 6). Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Reserve Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity.

Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Note 5 (continued)

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Reserve Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006:

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
	%			($ thousands)			
Equity index swap contracts	67	33	-	$ 7,873	$ 165	$ -	$ -
Credit default swap contracts	1	4	95	5,449	13	-	-
Interest rate swap contracts	44	42	14	4,148	(8)	-	-
Cross-currency interest rate swap contracts	12	31	57	2,835	206	-	-
Bond index swap contracts	100	-	-	989	98		
Equity index futures contracts	100	-	-	751	24	-	-
Forward foreign exchange contracts	100	-	-	447	3	-	-
				$ 22,492	$ 501	$ -	$ -

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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

NOTE 6 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (UNREGISTERED PLAN)

An actuarial valuation of the Unregistered Plan was carried out as at December 31, 2005 by Johnson Incorporated and was then extrapolated to March 31, 2006.

As at March 31, 2006, the Unregistered Plan reported an actuarial deficiency of $4.4 million (2005 $0.5 million), taking into account the amounts owing from the Reserve Fund.

NOTE 7 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2006 presentation.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2006

	Reserve Fund's Share 2006	2005
	($ thousands)	
Deposits and short-term securities	$ 45,785	$ 38,437
Fixed income securities (a)		
Government of Canada, direct and guaranteed	4,480	-
Provincial, direct and guaranteed		
Alberta	98	-
Other	2,932	-
Municipal	84	-
Corporate, public and private	8,606	-
	16,200	-
Receivable from sale of investments and accrued investment income	354	-
Liabilities for investment purchases	(131)	-
	223	-
	$ 62,208	$ 38,437

(a) Fixed income securities held as at March 31, 2006 had an average effective market yield of 4.70% per annum. The following term structure of these securities as at March 31, 2006 was based on principal amount:

	2006	2005
	%	
under 1 year	2	100
1 to 5 years	34	-
6 to 10 years	33	-
11 to 20 years	12	-
over 20 years	19	-
	100	100

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2006

	Reserve Fund's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$ 37	$ -
Public equities (a) (b)		
Consumer discretionary	403	-
Consumer staples	229	-
Energy	2,192	-
Financials	2,360	-
Health care	83	-
Industrials	467	-
Information technology	322	-
Materials	1,159	-
Telecommunication services	371	-
Utilities	77	-
	7,663	-
Small Cap pooled fund	120	-
Receivable from sale of investments and accrued investment income	171	-
Liabilities for investment purchases	(121)	-
	50	-
	$ 7,870	$ -

(a) The Reserve Fund's net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $2,510,000 (2005 $nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2006

	Reserve Fund's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 29	$ -
Public equities (a) (b)		
Consumer discretionary	853	-
Consumer staples	681	-
Energy	758	-
Financials	1,706	-
Health care	1,033	-
Industrials	1,003	-
Information technology	1,245	-
Materials	284	-
Telecommunication services	234	-
Utilities	254	-
	8,051	-
Receivable from sale of investments and accrued investment income	318	-
Liabilities for investment purchases	(268)	-
	50	-
	$ 8,130	$ -

(a) The Reserve Fund's net investment in United States public equities includes the notional amount of US equity index swap contracts and equity index futures contracts totalling $3,451,000 (2005 $Nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2006

	Reserve Fund's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$ 182	$ -
Public equities (a)		
Consumer discretionary	899	-
Consumer staples	459	-
Energy	568	-
Financials	2,213	-
Health care	526	-
Industrials	1,012	-
Information technology	515	-
Materials	624	-
Telecommunications services	417	-
Utilities	333	-
	7,566	-
Emerging market pooled funds	194	-
Receivable from sale of investments and accrued investment income	232	-
Liabilities for investment purchases	(174)	-
	58	-
	$ 8,000	$ -

(a) The Reserve Fund's effective net investment in non-North American public equities includes the notional amount of US equity index swap contracts and equity index futures contracts totaling $1,433,000.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Reserve Fund's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased.

	Reserve Fund's Share	
	2006	2005
	($ thousands)	
Japan	$ 1,761	$ -
United Kingdom	1,489	
France	770	-
Germany	514	-
Switzerland	510	-
Netherlands	391	-
Australia	280	-
Italy	241	-
Spain	208	-
Sweden	156	-
Other	1,246	-
	$ 7,566	$ -

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Supplementary Retirement Plan Reserve Fund as at March 31, 2006 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of the Fund. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 26, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

BALANCE SHEET

As At March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Investments (Note 3)	$ 23,997	$ 19,812
Accrued interest	-	11
Receivable from participating employers	81	224
	24,078	20,047
Liabilities		
Amounts owing to the Supplementary Retirement Plan for Public Service Managers (Notes 2(f) and 6)	24,078	20,047
Net Assets	$ -	$ -

STATEMENT OF CHANGES IN NET ASSETS

Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Increase in assets		
Contributions from participating employers	$ 1,074	$ 1,043
Net investment income (Note 7)	2,957	1,233
	4,031	2,276
Decrease in assets		
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	4,031	2,276
Increase in net assets	-	-
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

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

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 AUTHORITY AND PURPOSE

The Supplementary Retirement Plan Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and *Treasury Board Directive 05/99*.

The Reserve Fund is established to collect contributions from participating employers and to invest the funds, which are reserved to meet future benefit payments of the Supplementary Retirement Plan for Public Service Managers (SRP). The SRP is established effective July 1, 1999 to provide additional pension benefits to eligible public service managers whose pensionable earnings are in excess of the *maximum pensionable salary limit* under the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments of the SRP.

The Reserve Fund's investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Reserve Fund or by pooled investment funds are explained in the following paragraphs:

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

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative investments including investments in partnership interests, private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 2 (continued)

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

Due to their short-term nature, the fair values of deposits, receivables, accrued investment income and accrued liabilities are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

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

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 2 (continued)

(f) Liabilities

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from participating employers. Contribution rates are set by the Minister of Finance, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2006 was 5.8% (2005 6.8%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit*.

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the SRP over the long term.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Fund's private and alternative investments and real estate. Uncertainty arises because the estimated fair values of the Fund's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Fund's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 240	1.0	65	0.3
Canadian Dollar Public Bond Pool (b)	5,963	24.8	6,544	33.0
Private Mortgage Pool (c)	1,243	5.2	1,122	5.7
Tactical Asset Allocation Pool (l)	45	0.2	39	0.2
External Managers Currency Alpha Pool	11	0.1	-	-
Real rate of return bonds	-	-	1,096	5.5
Total fixed income securities	7,502	31.3	8,866	44.7
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (d)	2,045	8.5	2,351	11.9
Canadian Pooled Equities Fund (e)	1,264	5.3	33	0.2
External Managers				
Canadian Equity Enhanced Index Pool (f)	616	2.6	362	1.8
Canadian Large Cap Equity Pool (g)	442	1.8	235	1.2
Growing Equity Income Pool (h)	259	1.1	-	-
Canadian Multi-Cap Pool (i)	228	0.9	153	0.8
Tactical Asset Allocation Pool (l)	(233)	(1.0)	(201)	(1.0)
	4,621	19.2	2,933	14.9
United States Equities (Schedule C)				
S&P 500 Pooled Index Fund (j)	4,631	19.3	3,080	15.6
External Managers				
US Mid/Small Cap Equity Pool (k)	492	2.1	398	2.0
Growing Equity Income Pool (h)	80	0.3	-	-
Tactical Asset Allocation Pool (l)	235	1.0	202	1.0
	5,438	22.7	3,680	18.6
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (m)	3,782	15.8	-	-
EAFE Passive Equity Pool (n)	984	4.1	818	4.1
Emerging Markets Equity Pool (o)	319	1.3	203	1.0
EAFE Core and Plus Equity Pools	-	-	2,719	13.7
EAFE Structured Equity Pooled Fund (n)	194	0.8	-	-
	5,279	22.0	3,740	18.8
Alternative Investments - Equities				
Timberlands Pool (p)	132	0.5	-	-
Private Income Pool	2	-	-	-
	134	0.5	-	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (q)	1,023	4.3	593	3.0
Total equities	16,495	68.7	10,946	55.3
Total investments	$ 23,997	100.0	19,812	100.0

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 3 (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(e) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection while remaining sector neutral.

(f) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(g) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple managers each of whom has a different investment style and market capitalization focus.

(h) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

(i) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

(j) The S&P 500 Pooled Index Fund is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pool also invests in futures, swaps and other structured investments.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 3 (continued)

(k) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(l) The Tactical Asset Allocation Pool is managed with the objective of providing a quick, efficient and economical way to earn excess returns, on an opportunistic basis, by taking positions that effectively alter a portfolio's broad asset mix, or capitalize on significant anomalies in the market. The pool is comprised of synthetic instruments that increase the effective weight of a portfolio in one broad asset category while simultaneously decrease the effective weight in another broad asset category. As the pool is notionally a zero net investment portfolio, it has an absolute return of zero as its benchmark.

(m) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(n) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(o) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(p) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term.

(q) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 4 (continued)

Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn the best possible return at an acceptable level of risk, the Minister has established a long-term policy asset mix of 43% fixed income instruments and 57% equities to the combined investments held by the Reserve Fund and the SRP (see Note 6). Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Reserve Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity.

Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 5 (continued)

The following is a summary of the Reserve Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006:

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
	%			($ thousands)			
Equity index swap contracts	67	33	-	$ 4,288	$ 76	$ 2,867	$ 24
Credit default swap contracts	2	5	93	2,044	5	290	3
Interest rate swap contracts	41	43	16	1,916	(4)	1,127	(29)
Cross-currency interest rate swap contracts	11	33	56	1,420	110	1,278	9
Equity index futures contracts	100	-	-	1,267	22	439	6
Forward foreign exchange contracts	100	-	-	778	-	414	3
Bond index swap contracts	100	-	-	414	50	127	1
				$ 12,127	$ 259	$ 6,542	$ 17

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2005.

As at December 31, 2005, the SRP reported an actuarial surplus of $10.0 million (2004 $9.4 million), taking into account the amounts owing from the Reserve Fund.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

NOTE 7 NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2006	2005
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 2,136	$ 499
Interest income	597	568
Dividend income	201	167
Real estate operating income	43	21
Security lending income	7	3
Administration expenses	(27)	(25)
	$ 2,957	$ 1,233

The following is a summary of the Fund's proportionate share of net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed Income Securities	$ 583	$ 591
Canadian Equities	917	457
Foreign Equities		
United States	361	(117)
Non-North American	944	232
Alternative investments	(11)	-
Real Estate	163	70
	$ 2,957	$ 1,233

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

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

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2006

	Reserve Fund's Share 2006	2005
	($ thousands)	
Deposits and short-term securities	$ 296	$ 125
Fixed income securities (a)		
Government of Canada, direct and guaranteed	1,650	3,077
Provincial, direct and guaranteed		
Alberta	35	4
Other	1,123	1,580
Municipal	30	83
Corporate, public and private	4,278	3,944
	7,116	8,688
Receivable from sale of investments and accrued investment income	151	91
Liabilities for investment purchases	(61)	(38)
	90	53
	$ 7,502	$ 8,866

(a) Fixed income securities held as at March 31, 2006 had an average effective market yield of 4.78% (2005 4.15%) per annum. The following term structure of these securities as at March 31, 2006 was based on principal amount:

	2006	2005
	%	
under 1 year	3	2
1 to 5 years	31	32
6 to 10 years	35	30
11 to 20 years	12	17
over 20 years	19	19
	100	100

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2006

	Reserve Fund's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 23	$ 7
Public equities (a) (b)		
Consumer discretionary	241	179
Consumer staples	137	123
Energy	1,289	592
Financials	1,375	911
Health care	49	41
Industrials	277	155
Information technology	188	169
Materials	681	435
Telecommunication services	216	184
Utilities	46	45
	4,499	2,834
Small Cap pooled fund	69	47
Receivable from sale of investments and accrued investment income	105	55
Liabilities for investment purchases	(75)	(10)
	30	45
	$ 4,621	$ 2,933

(a) The Reserve Fund's net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $1,764,000 (2005 $1,938,000).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2006

	Reserve Fund's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 14	$ 24
Public equities (a) (b)		
Consumer discretionary	567	436
Consumer staples	469	350
Energy	513	320
Financials	1,145	714
Health care	690	478
Industrials	659	455
Information technology	832	559
Materials	183	143
Telecommunication services	162	103
Utilities	170	128
	5,390	3,686
Receivable from sale of investments and accrued investment income	210	14
Liabilities for investment purchases	(176)	(44)
	34	(30)
	$ 5,438	$ 3,680

(a) The Reserve Fund's net investment in United States public equities includes the notional amount of US equity index swap contracts and equity index futures contracts totalling $2,518,000 (2005 $1,368,000).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2006

	Reserve Fund's Share 2006	Reserve Fund's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 118	$ 69
Public equities (a)		
Consumer discretionary	606	482
Consumer staples	300	213
Energy	380	316
Financials	1,472	952
Health care	353	221
Industrials	676	434
Information technology	340	184
Materials	408	314
Telecommunications services	276	306
Utilities	222	158
	5,033	3,580
Emerging market pooled funds	124	84
Receivable from sale of investments and accrued investment income	63	45
Liabilities for investment purchases	(59)	(38)
	4	7
	$ 5,279	$ 3,740

(a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Reserve Fund's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased.

	Reserve Fund's Share 2006	Reserve Fund's Share 2005
	($ thousands)	
Japan	$ 1,177	$ 625
United Kingdom	1,001	779
France	510	353
Germany	343	254
Switzerland	339	227
Netherlands	256	193
Australia	190	163
Italy	162	138
Spain	141	105
Sweden	104	95
Other	810	648
	$ 5,033	$ 3,580

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2006

	Reserve Fund's Share	
	2006	**2005**
	($ thousands)	
Real estate (a)		
Office	$ 507	$ 270
Retail	338	240
Industrial	106	47
Residential	46	27
	997	584
Passive index	24	8
Receivable from sale of investments and accrued investment income	2	1
	$ 1,023	$ 593

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Reserve Fund's Share	
	2006	**2005**
	($ thousands)	
Ontario	$ 607	$ 389
Alberta	279	121
Quebec	91	61
British Columbia	20	13
	$ 997	$ 584

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2006

The Plan uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

	2006	2005	2 Year Compound Annualized Return
Time-weighted rates of return			
Short-term fixed income	**3.0**	**3.0**	**2.8**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*2.5*
Long-term fixed income	**6.3**	**5.6**	**6.5**
Combined benchmark	*5.6*	*5.0*	*5.4*
Canadian equities	**29.0**	**14.7**	**21.3**
S&P/TSX Composite Index	*28.4*	*13.9*	*21.0*
United States Equities	**8.3**	**(1.3)**	**2.4**
Standard & Poor's 1500 Index	*9.1*	*(1.0)*	*3.9*
Non-North American equities	**23.6**	**7.0**	**14.3**
MSCI EAFE Index	*20.0*	*6.2*	*12.9*
Real Estate	**21.3**	**13.9**	***17.5***
IPD Large Institutional All Property Index	*18.1*	*17.6*	*17.8*
Overall	**13.3**	**6.7**	**10.0**
Policy Benchmark	12.4	6.2	9.4

The current sector benchmark indices are as of March 31, 2006. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholders of the Alberta Capital Finance Authority

I have audited the balance sheet of the Alberta Capital Finance Authority as at December 31, 2005 and the statements of loss and retained earnings and cash flow for the year then ended. These financial statements are the responsibilitiy of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
January 27, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA CAPITAL FINANCE AUTHORITY

BALANCE SHEET

As at December 31, 2005

	2005 Budget	2005 Actual	2004 Actual
		($ thousands)	
Assets:			
Cash (Note 3)	$ 91,590	$ 10,304	$ 23,025
Accrued interest receivable	103,246	109,662	121,988
Loans to local authorities (Note 4)	3,894,136	4,293,356	4,135,820
	$ 4,088,972	$ 4,413,322	$ 4,280,833
Liabilities and Shareholders' Equity:			
Liabilities:			
Accrued interest payable	$ 48,324	$ 53,751	$ 56,329
Debt (Note 5 and Schedule 1)	4,032,065	4,347,834	4,211,776
	4,080,389	4,401,585	4,268,105
Shareholders' equity:			
Share capital (Note 6)			
Issued and fully paid:			
6,378 shares (2004 - 6,376)	64	64	64
Retained earnings	8,519	11,673	12,664
	8,583	11,737	12,728
	$ 4,088,972	$ 4,413,322	$ 4,280,833

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

D. O. Lussier
Chair of the Board

T. S. Stroich, FCA
President

ALBERTA CAPITAL FINANCE AUTHORITY

STATEMENT OF LOSS AND RETAINED EARNINGS

For the Year Ended December 31, 2005

	2005		2004
	Budget	Actual	Actual
		($ thousands)	
Interest Income:			
Loans	$ 276,985	$ 277,000	$ 298,412
Amortization of loan discounts	6,424	6,424	9,175
Other	3,600	2,594	2,815
	287,009	286,018	310,402
Interest Expense:			
Debt	288,699	285,312	319,704
Amortization of net discounts on debt	661	796	1,378
	289,360	286,108	321,082
Net interest expense	(2,351)	(90)	(10,680)
Other Income:			
Loan prepayment fees	-	66	1,577
Net interest expense and other income	(2,351)	(24)	(9,103)
Non-Interest Expense:			
Administration and office expenses (Note 7)	649	967	639
Net loss	(3,000)	(991)	(9,742)
Retained earnings, beginning of year	11,519	12,664	22,406
Retained earnings, end of year	$ 8,519	$ 11,673	$ 12,664

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

ALBERTA CAPITAL FINANCE AUTHORITY

STATEMENT OF CASH FLOW

For the Year Ended December 31, 2005

	2005		2004
	Budget	Actual	Actual
		($ thousands)	
Operating Activities:			
Interest received	$ 289,878	$ 289,326	$ 304,613
Other interest	3,600	2,594	2,815
Loan prepayment fees	-	66	1,577
Administration and office expenses	(649)	(967)	(639)
Interest paid	(291,830)	(287,890)	(316,021)
Cash flows from (used in) operating activities	999	3,129	(7,655)
Investing Activities:			
Loan repayments	497,174	500,825	397,916
New loans issued	(250,000)	(651,937)	(607,463)
Cash flows (used in) from investing activities	247,174	(151,112)	(209,547)
Financing Activities:			
Debt issues	253,993	967,866	713,410
Debt redemptions	(433,365)	(832,604)	(475,491)
Cash flows from (used) financing activities	(179,372)	135,262	237,919
Net (decrease) increase in cash	68,801	(12,721)	20,717
Cash, beginning of year	22,789	23,025	2,308
Cash, end of year	$ 91,590	$ 10,304	$ 23,025

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

ALBERTA CAPITAL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

(all amounts presented in thousands of dollars, except share amounts and number of individuals)

NOTE 1 AUTHORITY

The Alberta Capital Finance Authority operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and include the following significant accounting policies:

(a) Debt

Debt premiums and discounts, including underwriting commission, arising on the issue of debt are deferred and amortized over the term of the debt.

Debt is recorded net of unamortized premiums or discounts.

Public debt issue expenses are charged against income as they are incurred.

(b) Discounts on Loans to Local Authorities

Discounts are recorded for reductions of interest rates given on loans to local authorities with interest rates above a certain level and are amortized to income over the term of these loans. Annual amortization is the change in the present value of the remaining interest rate reduction.

(c) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the valuation of the loans to local authorities and the estimate of fair value of financial instruments.

(d) Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to the Authority. Historically, the Authority has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Authority 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.

(e) Derivative Financial Instruments

Derivative financial instruments used by the Authority are interest rate contracts whose value is derived from interest rates and are used to accommodate the management of risk for asset/liability management purposes and to manage the Authority's interest rate exposure.

ALBERTA CAPITAL FINANCE AUTHORITY

Note 2 (continued)

To designate a derivative financial instrument as a hedge for accounting purposes, the criteria of Accounting Guideline 13, Hedging Relationships must be met. In order to qualify for hedge accounting, the Authority formally documents all relationships between hedging instruments and hedging items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivative financial instruments to specific assets and liabilities. The Authority also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments are accounted for on an accrual basis. Income and expenses on derivative financial instruments designated and qualifying as hedges are recorded as an adjustment to the yield of the item being hedged over the term of the hedge contract in the Statement of Loss and Retained Earnings. Accrued interest receivable and payable on these derivative financial instruments are recorded in accrued interest receivable and payable respectively, in the Balance Sheet.

If the hedge is no longer effective, the associated derivative financial instrument is subsequently carried at fair value on the Balance Sheet and the fair value and any subsequent changes to the fair value are recorded in the Statement of Loss and Retained Earnings in other income.

Derivative financial instruments that have been acquired for asset/liability management purposes that do not qualify for hedge accounting are carried at fair value on the Balance Sheet and the fair value and any subsequent changes in the fair value are recorded in the Statement of Loss and Retained Earnings in other income.

Accrued income and expenses and deferred gains and losses are included in other assets and other liabilities as appropriate in the Balance Sheet.

NOTE 3 CASH

Cash is on deposit in the Consolidated Cash Investment Trust Fund of the Province of Alberta which is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2005, securities held by the Fund have an average effective market yield of 3.62% per annum (December 31, 2004: 2.64% per annum).

NOTE 4 LOANS TO LOCAL AUTHORITIES

	2005	2004
Loans to local authorities	$ 4,301,317	$ 4,150,205
Less: Unamortized discounts	7,961	14,385
	$ 4,293,356	$ 4,135,820

ALBERTA CAPITAL FINANCE AUTHORITY

NOTE 5 DEBT

(a) The debt of the Authority is fully guaranteed by the Province of Alberta.

(b) Debt amounting to $1,920,963 (2004 - $2,204,567) held by the Canada Pension Plan Investment Fund (CPPIF) is redeemable at the option of the Minister of Finance of Canada by giving six months notice in writing and observing the other redemption provisions of the debt agreement.

(c) Debt amounting to $565,000 (2004 - $302,000) is comprised of a combination of various issues of step-up and accrual notes whereby the Authority has the option of extending or calling the debt, at predetermined extension or call dates. Principal is due upon termination of the debt, where debt is called or not extended by the Authority at the predetermined extension or call date, or upon final maturity of the debt (Schedule 1).

(d) For the next five years debt redemption requirements, with the assumption that the step-up and accrual notes are redeemed at the first extendible date and all other debt at the maturity date, are as follows:

	Debt Redemption
2006	$ 950,396
2007	345,383
2008	259,294
2009	330,523
2010	200,000
	$ 2,085,596

NOTE 6 SHARE CAPITAL

Particulars of share capital are as follows:

Class	Restricted to	Number of Shares: Authorized	Number of Shares: Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$45,000
B	Municipal authorities, airport and health authorities	1,000	860	8,600
C	Cities	750	585	5,850
D	Towns and villages	750	296	2,960
E	Educational authorities	500	137	1,370
		7,500	6,378	$63,780

During the year, one Class B, three Class C and one Class E shares were issued and three Class D shares were cancelled at $10.00 each.

ALBERTA CAPITAL FINANCE AUTHORITY

NOTE 7 DIRECTORS' FEES AND RELATED PARTY TRANSACTIONS

Directors' fees paid by the Authority are as follows:

	2005		2004	
	Number of Individuals	Total	Number of Individuals	Total
Chair of the Board	1	$ 6	1	$ 5
Board members	6	$ 16	6	$ 18

There are two additional Board members who are employees of the Province of Alberta and do not receive compensation from the Authority.

The Authority has advanced loans to local authorities under the ME *first!* Municipal Energy Efficiency Assistance program (the "Program") on behalf of Alberta Municipal Affairs and Alberta Environment. Under the Program, principal is advanced to qualifying municipalities by the Authority and repayments of principal are made by the municipality; however, the interest is paid by the Province of Alberta. Included in the balance of loans to local authorities at December 31, 2005 is principal of $12,978 (2004 - $5,536), upon which, interest of $188 (2004 - $122) has been recorded in interest income from loans.

The Authority has no employees. Included in administration and office expenses of $967 (2004 - $639) is the amount of $417 (2004 - $331) that was paid to the controlling shareholder, Province of Alberta for goods and services at prices which approximate market.

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments used by the Authority include interest rate swaps and forward rate agreements. The Authority enters into derivative financial instruments for risk management purposes and does not act as an intermediary in this market.

The interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans and related debt made after January 1, 2004.

Notional amounts represent the amount to which a rate is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the Balance Sheet. 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.

The notional amounts of derivative financial instruments are summarized as follows:

	As at December 31					
Maturities	**Within 1 Year**	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**Total**
Interest rate contracts						
Interest rate swaps - 2005	$ 449,000	$ 21,380	$ 102,477	$ 419,070	$ 1,342,707	$2,334,634
Interest rate swaps - 2004	$ 302,000	$ -	$ 46,713	$ 162,251	$ 647,196	$1,158,160

ALBERTA CAPITAL FINANCE AUTHORITY

Note 8 (continued)

The cost of replacing the remaining cash flows of the derivative financial instruments at the prevailing prices and market rates are summarized as follows:

	As at December 31			
			Current Replacement Cost	
	Notional Outstanding	Net Fair Value	Favourable Position	Unfavourable Position
Interest rate contracts				
Interest rate swaps - 2005	$ 2,334,634	$ (12,393)	$ 27,802	$ (40,195)
Interest rate swaps - 2004	$ 1,158,160	$ (3,595)	$ 12,308	$ (15,903)

Fair values are determined using pricing models which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value).

Current credit exposure is limited to the amount of loss that the Authority would suffer if every counterparty to which the Authority was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favourable position. The Authority actively monitors their exposure and minimizes credit risk by only dealing with counterparties believed to be credit worthy.

NOTE 9 INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on the Authority's earnings when maturities of its financial assets are not matched with the maturities of its financial debt. The following table summarizes the carrying amounts of the Authority's interest sensitive assets and liabilities based on the earlier of contractual repricing or principal repayments:

	As at December 31						
Maturities	**Within 1 Year**	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**2005 Total**	**2004 Total**
Assets							
Cash	$ 10,304	$ -	$ -	$ -	$ -	$ 10,304	$ 23,025
Accrued Interest Receivable	109,662					109,662	121,988
Loans	390,354	444,778	1,055,479	1,128,168	1,282,538	4,301,317	4,150,205
Effective Rate	7.0%	6.9%	6.6%	6.1%	5.7%	6.4%	7.2%
Total	$ 510,320	$ 444,778	$1,055,479	$1,128,168	$1,282,538	$4,421,283	$4,295,218
Liabilities							
Accrued Interest Payable	$ 53,751	$ -	$ -	$ -	$ -	$ 53,751	$ 56,329
Debt	950,396	345,383	789,817	1,250,000	1,020,367	4,355,963	4,216,567
Effective Rate	7.4%	6.9%	6.1%	5.7%	5.5%	6.3%	6.9%
Total	1,004,147	345,383	789,817	1,250,000	1,020,367	4,409,714	4,272,896
Net Gap	$ (493,827)	$ 99,395	$ 265,662	$ (121,832)	$ 262,171	$ 11,569	$ 22,322

ALBERTA CAPITAL FINANCE AUTHORITY

Note 9 (continued)

The Authority manages on a continuous basis its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on the Authority's surplus position. For most loans made after January 1, 2004, the Authority uses derivative financial instruments to swap fixed rate loans interest to floating, and swap corresponding debt from fixed rate to floating and uses forward rate contracts to minimize the exposure related to the mismatch of reset dates of the loan and debt swaps.

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table represent the fair value of the Authority's financial instruments based on the following assumptions and valuation methods.

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act. For loans and debt, fair value is calculated using net present value techniques where the Authority's future cash flows are discounted at the Authority's current cost of funds.

Changes in interest rates are the main cause of changes in the fair value of the Authority's financial instruments.

The fair value of cash approximates its carrying value.

The following table presents the financial instruments with a carrying value different from the fair value at December 31:

	2005		2004	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Loans, including accrued interest receivable	$4,826,948	$4,403,018	$4,737,552	$4,257,808
Debt, including accrued interest payable	$4,772,766	$4,401,585	$4,704,483	$4,268,105

Fair value of derivative financial instruments is provided in Note 8.

NOTE 11 COMMITMENTS

Lease

The Authority has obligations under an operating lease for the rental of premises at an annual minimum amount of $25, expiring in July 2008.

Credit Commitments

In the normal course of business, the Authority enters into loan commitments to provide customers with sources of credit.

Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts and maturities, subject to certain conditions and are recently authorized loans not yet drawn down.

ALBERTA CAPITAL FINANCE AUTHORITY

Note 11 (continued)

These loan arrangements are subject to the Authority's normal credit standards and collateral is obtained where appropriate. The loan amounts represent the maximum credit risk exposure to the Authority should the loans be fully drawn. These arrangements will most likely be drawn upon; the loan amounts represent future cash requirements. Loan commitments as at December 31 were:

	2005	2004
Loan commitments as at December 31	$17,381	$28,600

NOTE 12 BUDGET

The 2005 budget was approved by the Board of Directors on December 3, 2004.

NOTE 13 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation.

ALBERTA CAPITAL FINANCE AUTHORITY

SCHEDULE TO THE FINANCIAL STATEMENTS

SCHEDULE OF DEBT

Schedule 1

As at December 31, 2005

Maturity Date	First Extendible Date	Interest Rate	Principal Outstanding	
			($ thousands)	
Canada Pension Plan Investment Fund (Note 5(b))				
Nov 03, 2006		9.850	$ 395,396	
Nov 02, 2007		9.660	335,383	
Oct 03, 2008		10.04	259,294	
Oct 02, 2009		9.990	291,414	
Nov 01, 2009		9.620	32,457	
Dec 01, 2009		9.260	6,652	
Oct 01, 2020		6.280	222,367	
Jun 01, 2022		6.060	100,000	
Apr 05, 2023		5.890	50,000	
Dec 01, 2023		5.500	150,000	
Dec 03, 2024		5.180	78,000	
Total			1,920,963	
Public				
Mar 24, 2008	Mar 24, 2006	3.000	16,000	(i)
Mar 01, 2010		4.550	50,000	
Aug 20, 2010		4.500	150,000	
Jun 23, 2011	Jun 23, 2006	3.000	10,000	(i)
Sep 01, 2011		5.700	200,000	
Sep 15, 2011	Sep 15, 2006	3.500	10,000	(i)
Dec 15, 2011		4.435	50,000	
Dec 15, 2011	Dec 15, 2006	3.300	13,000	(i)
May 11, 2012	May 11, 2006	3.250	10,000	(i)
Jun 01, 2012		5.850	500,000	
Jun 28, 2013	Jun 28, 2006	3.500	15,000	(i)
Oct 12, 2013	Oct 12, 2006	3.250	10,000	(i)
Dec 02, 2013		5.000	300,000	
Dec 15, 2014	Jun 15, 2006	4.000	25,000	(i)
Dec 15, 2014	Jun 15, 2006	4.300	30,000	(i)
Mar 23, 2015	Mar 23, 2006	4.250	20,000	(ii)
Mar 30, 2015	Mar 30, 2006	4.050	15,000	(i)
Apr 06, 2015	Apr 06, 2006	4.150	15,000	(i)
Jun 01, 2015		4.900	200,000	
Jun 15, 2015	Jun 15, 2006	4.000	10,000	(i)
Jun 15, 2015	Jun 15, 2006	4.100	45,000	(i)
Jun 15, 2015	Jun 15, 2006	4.000	17,000	(i)
Jun 15, 2015	Jun 15, 2006	3.250	15,000	(i)
Jun 23, 2015	Jun 23, 2006	3.700	15,000	(ii)
Jun 28, 2015	Jun 28, 2006	4.300	20,000	(ii)
Sep 15, 2015	Sep 15, 2006	4.240	10,000	(ii)
Dec 15, 2015	Jun 15, 2006	4.150	20,000	(i)
Jun 15, 2016	Jun 15, 2006	4.000	25,000	(i)
May 15, 2017	May 15, 2006	4.000	25,000	(i)

ALBERTA CAPITAL FINANCE AUTHORITY

SCHEDULE OF DEBT

Schedule 1 (continued)

Maturity Date	First Extendible Date	Interest Rate	Principal Outstanding	
Jun 16, 2017	Jun 16, 2006	4.000	18,000	(i)
Jun 28, 2017	Jun 28, 2006	4.000	30,000	(i)
Aug 15, 2017	Aug 15, 2006	4.000	35,000	(i)
Dec 15, 2017	Dec 15, 2007	4.000	10,000	(i)
Jun 01, 2018		5.150	100,000	
Dec 01, 2023		5.100	20,000	
Jun 15, 2025	Jun 15, 2006	5.150	20,000	(ii)
Jul 06, 2025	Jul 06, 2006	5.020	16,000	(ii)
Dec 15, 2025		4.450	300,000	
Oct 11, 2030	Oct 11, 2006	5.160	15,000	(ii)
Dec 15, 2030	Dec 15, 2006	5.160	10,000	(ii)
Dec 15, 2030	Dec 15, 2006	5.410	10,000	(ii)
Dec 15, 2030	Dec 15, 2006	5.400	10,000	(ii)
Total			2,435,000	
			4,355,963	
Net unamortized discount			8,129	
Total debt 2005			$4,347,834	
Total debt 2004			$4,211,776	

(i) These are step-up notes extendible at the Authority's option which pay interest periodically at a predetermined rate with principal paid on termination.

(ii) These are accrual notes extendible or callable at the Authority's option which accrue interest semi-annually or annually and pay interest and principal on termination.

ALBERTA INSURANCE COUNCIL

Financial Statements

DECEMBER 31, 2005

AUDITOR'S REPORT

To the Members of Alberta Insurance Council

We have audited the statement of financial position of Alberta Insurance Council as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at December 31, 2005, the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
March 9, 2006

Pricewaterhouse Coopers LLP
Chartered Accountants

ALBERTA INSURANCE COUNCIL

STATEMENT OF FINANCIAL POSITION

As at December 31, 2005

	2005	2004
ASSETS		
Current assets		
Cash (Note 3)	$ 2,995,419	$ 2,121,328
Accounts receivable	24,905	8,005
Prepaid expenses	29,857	34,894
	3,050,181	2,164,227
Recoverable program development costs	1,757	4,415
Deferred program and examination development costs (Note 4)	26,074	136,382
Property and equipment (Note 5)	300,071	225,352
	$ 3,378,083	$ 2,530,376
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 158,580	$ 131,619
Obligation under capital lease	-	4,500
Deferred tenant inducement	4,336	9,067
Deferred license and assessment fee revenue	1,102,622	756,972
	1,265,538	902,158
NET ASSETS		
Net assets		
Invested in property and equipment	300,071	220,852
Invested in program and development	26,074	136,382
Unrestricted	1,786,400	1,270,984
	2,112,545	1,628,218
	$ 3,378,083	$ 2,530,376

Approved by the Audit Committee

Nancy Stenson

Bob Ardiel

ALBERTA INSURANCE COUNCIL

STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended December 31, 2005

	Invested in property and equipment	Invested in program and examination development	Unrestricted	Total 2005	Total 2004
Balance - Beginning of year	$ 220,852	$ 136,382	$1,270,984	$1,628,218	$1,335,177
Excess (deficiency) of revenue over expenditures	(140,993)	(101,405)	726,725	484,327	293,041
Invested in property and equipment	220,212	-	(220,212)	-	-
Investment in program development	-	(8,903)	8,903	-	-
Balance - End of year	$ 300,071	$ 26,074	$1,786,400	$2,112,545	$1,628,218

	2005	2004
Net assets invested in property and equipment consists of:		
Property and equipment	$ 300,071	$ 225,352
Obligation under capital lease	-	(4,500)
	$ 300,071	$ 220,852

ALBERTA INSURANCE COUNCIL

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2005

	Budget 2005 (Unaudited)	2005	2004
Revenue			
License, assessment, examination and continuing education fees	$ 3,127,800	$ 3,334,205	$ 2,754,882
Interest and other	50,000	80,340	55,923
	3,177,800	3,414,545	2,810,805
Expenditures			
Salaries and benefits	1,700,000	1,640,162	1,416,929
Occupancy	255,000	219,349	215,283
Council meetings	220,000	156,399	140,481
Amortization of property and equipment	160,000	140,993	118,033
Travel	90,000	117,083	84,738
Amortization of program development costs	76,000	101,405	105,202
Software maintenance	110,000	98,927	49,018
Professional fees	90,000	97,354	58,708
Freight and postage	75,000	61,100	73,776
Printing and stationery	40,000	46,138	32,815
Office	26,000	41,155	16,033
Communications	50,000	37,748	33,706
Training	30,000	37,733	20,677
Accreditation committee	23,500	24,160	20,290
Insurance	22,000	19,894	19,699
Legal fees	65,000	17,987	64,505
Other	23,000	16,802	10,259
Promotion and publications	27,300	16,297	13,829
Special Project - General and Adjuster examination review	40,000	13,550	-
Appeal boards	45,000	13,529	19,546
Repairs and maintenance	10,000	12,453	4,237
	3,177,800	2,930,218	2,517,764
Excess of revenue over expenditures	$ -	$ 484,327	$ 293,041

ALBERTA INSURANCE COUNCIL

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005

	2005	2004
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures	$ 484,327	$ 293,041
Items not affecting cash		
Amortization of property and equipment	140,993	118,033
Amortization of program development costs	101,405	105,202
Amortization of deferred tenant inducement	(4,731)	(4,730)
	721,994	511,546
Net changes in non-cash working capital items		
(Increase) decrease in accounts receivable	(16,900)	2,920
Decrease (increase) in prepaid expenses	5,037	(10,352)
Increase in accounts payable and accrued liabilities	26,961	12,512
Increase in deferred license revenue	345,650	110,872
	1,082,742	627,498
Investing activities		
Purchase of property and equipment	(215,712)	(109,240)
Repayment of capital lease	(4,500)	(4,500)
Expenditures on deferred program and examination development - net of recovery	8,903	(35,636)
Decrease in recoverable program development costs	2,658	53,104
	(208,651)	(96,272)
Increase in cash	874,091	531,226
Cash - Beginning of year	2,121,328	1,590,102
Cash - End of year	$ 2,995,419	$ 2,121,328
Supplementary information		
Interest received	$ 69,862	$ 48,603

ALBERTA INSURANCE COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Insurance Council (the "Council") operates under the authority of the *Insurance Act*, Chapter I-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the *Income Tax Act*, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the *Insurance Act* and Regulations for their segments of the insurance industry.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue Recognition

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education ("CE") course approval fees are recognized upon course submission. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred license and assessment fee revenue.

Recoverable Program Development Costs

Costs incurred by the Council as a committee member of the Canadian Insurance Regulatory Organization ("CISRO") on behalf of other jurisdictions are expected to be recovered from those jurisdictions over the next years.

Deferred Program and Examination Development Costs

a) Deferred program development costs

Costs which have been incurred by the Council as a committee member of CISRO for the development of the Life License Qualification Program (the "LLQP" program) are deferred. Upon program implementation on January 1, 2003, these costs are amortized on a straight-line basis over a period of three years.

ALBERTA INSURANCE COUNCIL

Note 2 (continued)

b) Deferred examination development costs

Costs which have been incurred by the Council for the development of LLQP examination questions have been deferred. Upon integration of these questions into the examination question data bank in January 2005, these costs, net of recoveries, are amortized on a straight-line basis over a period of three years.

Property and Equipment and Amortization

Property and equipment is recorded at cost and is being amortized over their estimated useful lives on a straight-line basis as follows:

Leasehold improvements	Term of the lease
Furniture and office equipment	10 years
Computer equipment	3 years
Computer software	3 years
Telephone equipment	5 years

Deferred Tenant Inducement

Deferred tenant inducement in the amount of $4,336 (2004 - $9,067) is recorded at amortized cost and is amortized over the eight-year lease term into occupancy expense.

Contributed Services

The work of the Council is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

NOTE 3 CASH

Included in cash is an amount of $2,771,146 (2004 - $1,934,127) invested in the Consolidated Cash Investment Trust Fund ("CCITF"). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital.

ALBERTA INSURANCE COUNCIL

NOTE 4 DEFERRED PROGRAM AND EXAMINATION DEVELOPMENT COSTS

	Cost	Accumulated amortization	2005 Net	2004 Net
Travel	$ 94,742	$ 94,742	$ -	$ 31,580
Professional fees	176,359	176,359	-	58,788
Exam development	37,111	11,037	26,074	46,014
	$ 308,212	$ 282,138	$ 26,074	$ 136,382

NOTE 5 PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2005 Net	2004 Net
Leasehold improvements	$ 151,966	$ 78,314	$ 73,652	$ 10,328
Furniture and office equipment under capital lease	-	-	-	7,865
Furniture and office equipment	190,213	126,171	64,042	36,688
Computer equipment	198,715	171,407	27,308	50,576
Computer software	444,316	310,430	133,886	113,980
Telephone equipment	38,864	37,681	1,183	5,915
	$1,024,074	$724,003	$ 300,071	$ 225,352

ALBERTA INSURANCE COUNCIL

NOTE 6 LEASE COMMITMENTS

The Council is committed to operating leases payments for business premises in accordance with an existing lease agreement and a new lease agreement finalized subsequent to year-end, as follows:

2006	$ 93,175
2007	105,055
2008	104,929
2009	89,787
2010	60,288
2011	55,264

NOTE 7 FINANCIAL INSTRUMENTS

The Council's financial instruments comprise cash, accounts receivable, recoverable program development costs and accounts payable and accrued liabilities. The carrying value of these financial instruments approximate fair value. The Council is potentially subject to concentrations of interest rate risk principally with its investment in the Consolidated Cash Investment Trust Fund. Credit risk is negligible as the majority of revenue is from license and assessment fees, which are billed in advance. There are no unrecorded financial instruments

NOTE 8 COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year presentation.

ALBERTA INSURANCE COUNCIL

SCHEDULE TO THE FINANCIAL STATEMENTS

SCHEDULE OF SALARIES AND BENEFITS

Schedule 1

For the year ended December 31, 2005

Per diem payments of Council Members

The following amounts are included in council meetings expenditures:

	2005 #	2005	2004 #	2004
Councils [a]				
Chairs	5	$ 38,250	6	$ 40,575
Council Members	22	62,250	24	45,825
Total	27	$ 100,500	30	$ 86,400

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council and the Audit Committee.

Salaries and benefits

	FTE's #	Salary[b]	Benefits[c]	2005 Total	FTE's[e] #	2004 Total
Chief Executive Officer	1	$ 152,637	$ 40,886	$ 193,523	1	$ 180,835
Chief Operating Officer (formerly Assistant General Manager)	1	147,930	33,267	181,197	1	155,570
Full-time staff [d]	18	1,007,330	186,115	1,193,445	16	1,011,217
Part-time staff	2	61,039	10,958	71,997	2	69,307
Total	22	$1,368,936	$ 271,226	$1,640,162	20	$1,416,929

(b) Salary includes regular base pay, bonuses and overtime.

(c) Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, dental coverage, group life insurance, long and short-term disability plans and vacation pay. Accrued vacation pay was $31,923 (2004 - $18,035).

(d) Full-time staff consists of all individuals working 29 hours or more per week. Average annual salary and benefits was $65,324 (2004 - $61,754).

(e) Prior year figures have been restated to reflect full time equivalents ("FTE's").

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholder of Alberta Pensions Administration Corporation

I have audited the balance sheet of the Alberta Pensions Administration Corporation as at December 31,2005 and the statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31,2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 29, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

BALANCE SHEET

December 31, 2005

	2005	2004
	($ thousands)	
ASSETS		
Cash	$ 70	$ 54
Accounts receivable	8	106
Prepaid expenses	169	103
Due from pension plans	2,680	4,509
Property and equipment (Note 4)	6,956	8,664
	$ 9,883	$ 13,436
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable and accrued liabilities	$ 1,031	$ 1,984
Accrued salaries and benefits	1,015	797
Accrued vacation pay	406	606
Deferred lease inducement	35	52
Capital lease obligation (Note 5)	440	1,333
Deferred capital contributions (Note 3(b))	6,956	8,664
	9,883	13,436
Shareholder's equity		
Share capital (Note 6)	-	-
	$ 9,883	$ 13,436

The accompanying notes are part of these financial statements.

Approved by the Board

Jack H. McMahon
Chairman of the Board

R. C. (Rick) Milner
Audit Committee Chairman

ALBERTA PENSIONS ADMINISTRATION CORPORATION

STATEMENT OF INCOME

Year Ended December 31, 2005

	Budget 2005 (Note 16)	Actual 2005	Actual 2004
		($ thousands)	
Revenue			
Service revenue (Note 8)	$ 26,944	$ 24,547	$ 24,381
Miscellaneous revenue	18	51	52
Total revenue	26,962	24,598	24,433
Operating costs			
Salaries and benefits	15,588	14,714	13,481
Amortization	3,357	3,175	2,612
Contract services	1,385	1,219	2,255
Materials and supplies	2,027	1,961	2,242
Rent	913	659	706
Data processing	358	392	414
Operating costs before plan-specific costs	23,628	22,120	21,710
Plan-specific costs (Note 9)	3,334	2,478	2,723
Total operating costs	26,962	24,598	24,433
Net income	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

STATEMENT OF CASH FLOW

Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Operating activities		
Net income	$ -	$ -
Items not affecting cash		
Amortization	3,175	2,612
Capital contributions recognized	(3,175)	(2,612)
	-	-
Changes in non-cash working capital (Note 10)	926	(572)
	926	(572)
Investing activities		
Acquisition of property and equipment	(1,467)	(3,237)
Financing activities		
Decrease in deferred lease inducement	(17)	(18)
Increase (decrease) in capital lease obligation	(893)	546
Capital contributions received	1,467	3,237
	557	3,765
Increase (decrease) in cash for the year	16	(44)
Cash at beginning of year	54	98
Cash at end of year	$ 70	$ 54

The accompanying notes are part of these financial statements.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 AUTHORITY

The Alberta Pensions Administration Corporation (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000. The issued share of the Corporation is owned by the Government of Alberta, and accordingly the Corporation is exempt from income and other taxes.

NOTE 2 NATURE OF OPERATIONS

The Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and the *Financial Administration Act*, Chapter F-12, RSA 2000, is responsible for administering the following pension plans:

Local Authorities Pension Plan

Public Service Pension Plan

Management Employees Pension Plan

Special Forces Pension Plan

Public Service Management (Closed Membership) Pension Plan

Members of the Legislative Assembly Pension Plan

Provincial Judges and Masters in Chambers (Registered) Pension Plan

Supplementary Retirement Plan for Public Service Managers

Provincial Judges and Masters in Chambers (Unregistered) Pension Plan

All administrative services required by the pension plans are provided by the Corporation pursuant to the Administrative Services Agreement with the Minister through to December 31, 2006. These services include the collection of contributions, payment of benefits and refunds, communication to stakeholders, pension plan board support services and other services specifically requested by individual pension boards.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Property and equipment

Property and equipment are recorded at historical cost. The threshold for capitalization is $5,000 per item or $30,000 for like items, where the individual items have a useful life in excess of two years. Amortization is calculated as follows:

APEX business system	3 to 5 years
Computer equipment	2 to 3 years
Computer software	2 to 3 years
Leasehold improvements	Lease period
Furniture and equipment	5 years
Telephone system	3 years

Property and equipment under construction, including software development projects, is not amortized until completion and implementation.

Effective January 1, 2006 the Corporation has amended its accounting policy for capitalizing assets. The threshold for capitalizing new system development is $100,000, and $5,000 for all other items, where these items have a useful life in excess of one year. This new policy is being applied on a prospective basis.

(b) Recognition of deferred capital contributions

Financing obtained from the public sector pension plan funds to acquire property and equipment is recorded as deferred capital contributions. These amounts are recognized as revenue on the same basis as the acquired property and equipment is amortized.

NOTE 4 PROPERTY AND EQUIPMENT

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	($ thousands)			
APEX business system	$ 7,383	$ 4,437	$ 2,946	$ 6,030
Computer equipment	4,225	3,119	1,106	633
Computer software	2,059	839	1,220	199
Leasehold improvements	1,596	439	1,157	1,284
Furniture and equipment	1,095	568	527	518
Telephone system	43	43	-	-
	$ 16,401	$ 9,445	$ 6,956	$ 8,664

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTE 5 CAPITAL LEASE OBLIGATION

The Corporation is committed under capital leases for computer equipment for periods extending to 2006. The minimum lease payments for 2006 total $440,000 and do not include interest.

NOTE 6 SHARE CAPITAL

	2005	2004
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share, for cash (Note 1)	$ 1	$ 1

NOTE 7 FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities, accrued salaries and benefits, accrued vacation pay and capital lease obligation. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

NOTE 8 SERVICE REVENUE

The Corporation charged each plan with its respective share of the Corporation's operating and plan-specific costs based on the allocation formula decided by the Minister of Finance.

	2005	2004
	($ thousands)	
Public Sector Pension Plans		
Local Authorities Pension Plan	$ 14,686	$ 14,655
Public Service Pension Plan	6,350	6,283
Management Employees Pension Plan	1,416	1,427
Special Forces Pension Plan	1,136	1,106
Public Service Management (Closed Membership) Pension Plan	339	344
Provincial Judges and Masters in Chambers (Registered) Pension Plan	57	63
Members of the Legislative Assembly Pension Plan	58	57
Supplementary Retirement Pension Plans		
Supplementary Retirement Plan for Public Service Managers	442	378
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	63	68
	$ 24,547	$ 24,381

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTE 9 PLAN-SPECIFIC COSTS

The Corporation makes certain payments on behalf of the pension plan boards. These costs, which are incurred directly by the pension plan boards, and which the Corporation does not control, are as follows:

	2005	2004
	($ thousands)	
Contract services	$ 1,351	$ 1,508
Salaries and benefits	605	636
Materials and supplies	373	389
Remuneration for pension board members	142	184
Rent	7	-
Data processing	-	6
	$ 2,478	$ 2,723

NOTE 10 CHANGES IN NON-CASH WORKING CAPITAL

	2005	2004
	($ thousands)	
Changes in non-cash working capital consist of the following:		
Decrease (increase) in accounts receivable	$ 98	$ (94)
Decrease (increase) in prepaid expenses	(66)	17
Decrease (increase) in due from pension plans	1,829	(1,285)
Increase (decrease) in accounts payable and accrued liabilities	(953)	608
Increase (decrease) in accrued salaries and benefits	218	295
Increase (decrease) in accrued vacation pay	(200)	(113)
	$ 926	$ (572)

NOTE 11 RELATED PARTY TRANSACTIONS

		2005	2004
		($ thousands)	
The Corporation received the following services at amounts which approximate market from:			
Alberta Corporate Service Centre	Data processing and postage	$ 637	$ 524
Alberta Finance	Accounting and administrative	22	28
Alberta Infrastructure	Parking rental	10	10

The Corporation also provided services to the public sector pension plans and supplementary retirement pension plans as disclosed in Notes 8 and 9.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTE 12 SALARIES AND BENEFITS DISCLOSURE

	2005				2004
	Base Salary [a]	Other Cash Benefits [b]	Other Non-Cash Benefits [c]	Total	Total
	($ thousands)				
Corporation Board Chair[d]	$ -	$ 20	$ -	$ 20	$ 33
Corporation Board Members[d]	-	68	6	74	103
President and Chief Executive Officer[e]	150	39	33	222	206
Corporate Officers:					
Chief Strategist and Corporate Secretary	136	26	30	192	186
Chief Operating Officer	123	16	27	166	153
Chief Information Officer[f]	100	42	32	174	161
Chief Administrative Officer[g]	119	21	29	169	233

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and honoraria.

(c) Other non-cash benefits include the Corporation's share of all employee and Board member benefits and contributions or payments made on their behalf including pension, health care, dental coverage, group life insurance, long-term disability, WCB premiums, professional memberships and tuition fees.

(d) Remuneration paid for the services of the Chair and five board members (2004: five board members) is classified as contract services and is paid in accordance with the fee structure approved by the Minister of Finance.

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

(f) The Chief Information Officer (CIO) position was occupied for eleven months during the year, 8 months by the successor and 3 months by the predecessor. The former CIO was paid all holiday pay owing ($20,648) upon retiring.

(g) The Chief Administrative Officer position was held by two individuals during 2004, with an overlap of one month for transition purposes.

NOTE 13 DEFINED BENEFIT PLANS

($ thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,076 for the year ended December 31, 2005 (2004: $892).

At December 31,2004, the Management Employees Pension Plan reported a deficiency of $268,101 (2003: $290,014) and the Public Service Pension Plan reported a deficiency of $450,068 (2003: $584,213). At December 31,2004 the Supplementary Retirement Plan for Public Service Managers had a surplus of $9,404 (2003: $9,312).

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTE 14 COMMITMENTS

The Corporation has entered into agreements with minimum annual commitments for office space and automobile as follows:

	($ thousands)
2006	$ 727
2007	721
2008	810
2009	539

NOTE 15 COMPARATIVE FIGURES

Certain 2004 figures have been reclassified to conform with the 2005 presentation.

NOTE 16 APPROVAL OF 2005 BUDGET

The 2005 budget was approved by the Corporate Board on December 16,2004.

ALBERTA SECURITIES COMMISSION

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

I have audited the balance sheet of the Alberta Securities Commission as at March 31,2006 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31,2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA SECURITIES COMMISSION

BALANCE SHEET

As At March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Current		
Cash (Note 4)	$ 2,542	$ 3,185
Funds held for others (Note 9)	4	9
Accounts and advances receivable	98	77
Lease inducement receivable	-	389
Prepaid expense	112	102
	2,756	3,762
Non-current		
Restricted cash (Note 3)	895	829
Investments (Note 4)	23,316	19,790
Capital assets (Note 6)	1,913	2,124
Lease deposit	132	132
	26,256	22,875
Total assets	$ 29,012	$ 26,637
Liabilities and retained earnings		
Current		
Funds held for others (Note 9)	$ 4	$ 9
Accounts payable and accrued liabilities	1,612	1,649
Accrued vacation and benefit liabilities	635	667
Lease inducement (Note 7)	124	167
	2,375	2,492
Non-current		
Lease Inducement (Note 7)	494	618
Accrued benefit liability (Note 8)	2,070	1,666
Total liabilities	4,939	4,776
Retained earnings (Note 3)	24,073	21,861
Total liabilities and retained earnings	$ 29,012	$ 26,637

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

Approved by the Members

Wiliam S. Rice, Q.C.
Chair and Chief Executive Officer

Dennis A. Anderson, FCA
Member

ALBERTA SECURITIES COMMISSION

STATEMENT OF INCOME AND RETAINED EARNINGS

For the Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
	(Note 12)		
Revenue		($ thousands)	
Fees (Note 10)	$ 16,495	$ 19,285	$ 18,887
Investment income (Note 5)	893	2,486	1,568
Settlement cost recoveries (Note 10)	-	50	187
Conference fees	-	85	72
Revenue before administrative penalties	17,388	21,906	20,714
Administrative penalties revenue (Note 3)	-	449	249
Total revenue	17,388	22,355	20,963
Expense			
Salaries and benefits	13,935	12,821	12,191
Professional services	1,893	1,761	1,586
Administration	2,255	1,840	1,619
Premises	1,422	1,435	1,347
Amortization	588	622	541
Investor education (Note 3)	600	396	360
Special investigations (Note 13)	-	1,268	296
Total expense	20,693	20,143	17,940
Budget contingency	2,070		
Net income (loss)	$ (5,375)	2,212	3,023
Opening retained earnings		21,861	18,838
Closing retained earnings (Note 3)		$ 24,073	$ 21,861

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

ALBERTA SECURITIES COMMISSION

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Cash flows from operating activities		
Cash receipts from fees and other	$ 19,383	$ 18,959
Cash receipts from settlement cost recoveries	50	187
Cash paid to and on behalf of employees	(12,356)	(11,753)
Cash paid to suppliers for goods and services	(5,476)	(5,043)
Special investigations (Note 13)	(1,476)	(71)
Investment income	2,486	1,568
Cash advanced to MICA project (Note 9)	(8)	(53)
Administrative penalties	449	249
Cash flows from operating activities	3,052	4,043
Cash flows from investing activities		
Lease inducement received	389	199
(Increase) decrease in restricted cash	(66)	103
Cash used for capital assets (1)	(492)	(348)
Cash used for investments	(3,526)	(2,532)
Cash returned from CSA for NRD funding		121
Cash used in investing activities	(3,695)	(2,457)
(Decrease) increase in cash	(643)	1,586
Opening cash	3,185	1,599
Closing cash	$ 2,542	$ 3,185
Supplemental cash flow information		
(1) Additions to capital assets	$ (414)	$ (450)
Proceeds on disposal	3	3
(Decreases) increases in capital asset liabilities	(81)	99
	$ (492)	$ (348)

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

ALBERTA SECURITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006
($ thousands)

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission ("Commission") is a provincial corporation operating under the *Securities Act* (Alberta). The business of the Commission is the regulation of the Alberta capital market, including the administration of the Act, the Securities Regulation and the Alberta Securities Commission Rules.

The Commission's investments are independently managed by the Alberta Investment Manager of the Province of Alberta. The Commission does not participate in capital market investment decisions or transactions.

The Commission, as an Alberta provincial corporation, is exempt from income tax.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

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

(a) Portfolio investments

Fixed-income securities and equities are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

Gains and losses arising as a result of disposal of investments are included in the determination of investment income. Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for the purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

ALBERTA SECURITIES COMMISSION

Note 2 (continued)

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, the type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for the purpose of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Valuation of financial assets and liabilities

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

The fair value of cash deposits, receivables, accrued liabilities and payables are estimated to approximate their book values.

Fair values of investments held either directly by the Commission or by pooled investment funds are determined as follows:

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

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

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. The value of derivative contracts is included in the fair value of the Commission's investment in the Canadian Dollar Public Bond Pool and Domestic Passive Equity Pooled Fund (see Note 4). The fair value of derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

ALBERTA SECURITIES COMMISSION

Note 2 (continued)

(d) Capital assets

Capital assets are recorded at cost.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leasehold improvements	remaining lease term to March 2011

(e) Fees, administrative penalty and settlement cost recovery recognition

Fees are recognized when earned, which is upon cash receipt.

Administrative penalty and settlement cost recoveries are recognized when the decision is issued or agreement reached and the amounts are determined to be collectible.

(f) Employee future benefits

The Commission participates in the Public Service Pension Plan ("PSPP"), a multi-employer defined benefit pension plan, with other government entities. This plan is accounted for as a defined contribution plan as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The Commission maintains a Supplemental Pension Plan (the "Plan") for certain designated executives of the Commission. The cost of the pension is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the plan. Gains and losses arising from employee changes are recognized in the year of change. The average remaining service period of active employees of the Plan is six years.

The Commission also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the Commission. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act*. The expense included in these financial statements represents the current contributions made on behalf of the employees.

(g) Lease inducement

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term.

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

ALBERTA SECURITIES COMMISSION

Note 2 (continued)

(i) Restricted cash

The *Securities Act* (Alberta) restricts the use of revenues received by the Commission from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of the securities market operation.

NOTE 3 RESTRICTED CASH AND RETAINED EARNINGS

Retained earnings include $895 ($829 in 2005) of restricted cash, as described in Note 2(i). Changes in restricted cash include:

	2006	2005
	($ thousands)	
Restricted cash increase (decrease)		
Administrative penalties	$ 620	$ 251
Less: uncollectible amounts	(195)	(25)
Net realizable value	425	226
Interest income and other	24	23
	449	249
Plus: Accountant’s conference income	13	8
Less: Eligible education expenses	(396)	(360)
Restricted cash increase (decrease)	$ 66	$ (103)

NOTE 4 CASH AND INVESTMENTS

(a) Summary

	2006			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
	($ thousands)			($ thousands)		
Cash						
Deposit in the CCITF	$ 2,542	$ 2,542		$ 3,185	$ 3,185	
Investments						
Deposit in the CCITF	$ 60	$ 60	0.3	$ 56	$ 56	0.3
Fixed-income securities (Schedule B)	17,697	17,441	74.0	14,757	14,709	72.8
Canadian equities (Schedule C)	5,559	6,060	25.7	4,977	5,433	26.9
	$ 23,316	$ 23,561	100.0	$ 19,790	$ 20,198	100.0

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund ("CCITF"). The CCITF is administered by the Ministry of Finance with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio comprises high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the CCITF have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

ALBERTA SECURITIES COMMISSION

Note 4 (continued)

The Commission's investments are held in pooled investment funds established and managed by the Ministry of Finance. Investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Commission's percentage ownership, at market, in pooled investment funds is 0.18% or less as follows:

	% Ownership	
	2006	**2005**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	0.18	0.17
Canadian Pooled Equity Fund	0.15	0.17
Domestic Passive Equity Pooled Fund	0.12	0.13
Externally Managed Investment Pools		
Canadian Large Cap Equity Pool	0.05	0.03

(i) The Canadian Dollar Public Bond Pool is managed with the objective of providing above-average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio comprises high-quality Canadian fixed income instruments and related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(ii) The Domestic Passive Equity Pooled Fund (Pool) is managed using a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange ("TSX") Index. The portfolio comprises publicly traded equities in Canadian corporations similar in weights to the TSX Index. To enhance investment returns with no substantial increase in risks, the pool uses structured investments such as domestic equity index swaps. The Pool's investments in units of the Floating Rate Note Pool ("FRNP") are used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of with structured investments in foreign equities, domestic equities and bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high-quality floating-rate instruments with remaining term-to-maturity of five years or less.

(iii) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Standard and Poors/Toronto Stock Exchange ("S&P/TSX") Index. The portfolio comprises publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(iv) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. An external manager actively manages each portfolio with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the TSX index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

ALBERTA SECURITIES COMMISSION

Note 4 (continued)

(b) Investment risk management

Income and financial returns of the Commission are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk comprises interest rate risk and market risk. Interest rate risk relates to the possibility that the investments will change in value due to fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Commission has established an investment policy, which is reviewed annually. Risk is reduced through asset class diversification, diversification within each asset class, and quality and duration constraints on fixed-income instruments. Controls are in place respecting the use of derivatives (see Note 4 (c)).

(c) Derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Ministry of Finance uses derivative contracts held within pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount.

An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount.

Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies.

A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified equity index.

There are underlying securities supporting all swaps. Leveraging is not allowed.

ALBERTA SECURITIES COMMISSION

Note 4 (continued)

The following is a summary of the Commission's proportionate share of the notional amount and fair value of swap contracts issued by pooled funds as at March 31, 2006.

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
				($ thousands)			
Equity index swap contracts	77%	23%	-	$ 2,823	$ 60	$ 2,067	$ 52
Cross-currency interest rate swaps	14%	22%	64%	1,342	74	1,651	(46)
Interest rate swap contracts	51%	45%	4%	2,986	(6)	868	(24)
Bond index swap contracts	100%	-	-	695	25	286	2
Credit default swap contracts	1%	1%	98%	5,412	11	260	3
Forward foreign exchange contracts	100%	-	-	134	(1)	91	7
Equity index futures contracts	100%	-	-	612	11	-	-
				$14,004	$ 174	$ 5,223	$ (6)

(a) Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining the fair value of derivative contracts is described in note 2(c).

NOTE 5 NET INVESTMENT INCOME

	2006	2005
	($ thousands)	
Net realized gain on investments including derivative income	$ 1,448	$ 754
Interest	983	766
Dividends	60	53
Other	(5)	(5)
	$ 2,486	$ 1,568

NOTE 6 CAPITAL ASSETS

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
			($ thousands)	
Computer equipment and software	$ 2,129	$ 1,642	$ 487	$ 555
Furniture and equipment	545	304	241	259
Leasehold improvements	2,481	1,296	1,185	1,310
	$ 5,155	$ 3,242	$ 1,913	$ 2,124

ALBERTA SECURITIES COMMISSION

NOTE 7 LEASE INDUCEMENTS

Lease	Term	Current Inducement	Future Inducement
		($ thousands)	
Calgary	8 years, ending March 2011	$ 124	$ 494

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability includes:

	2006	2005
	($ thousands)	
Retirement Plan	$ 198	$ 190
Supplemental Pension Plan	1,923	1,523
Less: current portion	$ (51)	$ (47)
	$ 2,070	$ 1,666

The following pension expense for the plans is recorded in the Statement of Income under salaries and benefits.

	2006	2005
	($ thousands)	
Public Service Pension Plan	$ 325	$ 277
Registered Retirement Savings Plan	274	287
Retirement Plan	29	29
Supplemental Pension Plan	426	438
	$ 1,054	$ 1,031

(a) Public Service Pension Plan

The Commission participates in the Public Service Pension Plan (the "PSPP"). At December 31, 2005, the PSPP reported a deficiency of $187,704 and in 2004 a deficiency of $450,068.

(b) Registered Retirement Savings Plan

The Commission makes contributions on behalf of employees who do not participate in the PSPP to employee Registered Retirement Savings Plans.

(c) Retirement Plan

The Commission has a retirement plan for an executive who is now retired. The provisions of the retirement plan were established pursuant to a written agreement. The retirement plan provides pension benefits based on a fixed schedule of payments over a 15-year period ending in August 2017. Accrued benefits are payable on death. The retirement plan is not pre-funded and the benefits are paid ($21 in 2006, $21 in 2005) from the assets of the Commission as they come due.

ALBERTA SECURITIES COMMISSION

Note 8 (continued)

(d) Supplemental Pension Plan

The Commission has a Supplemental Pension Plan (the "Plan") for certain designated executives of the Commission. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Plan provides pension benefits to the designated executives that are defined by reference to earnings in excess of the limit ($105 effective January 1, 2006, and $100 effective January 1, 2005) imposed by the *Income Tax Act* on registered pension arrangements.

Pension benefits from the Plan are payable on or after attainment of age 55 and are equal to 1.75% of highest average pensionable earnings (average over five years) for each year of service with the Commission. Members of the Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Plan is not pre-funded and the benefits will be paid as they come due from the assets of the Commission.

Actuarial valuations of the Plan are undertaken every three years. At April 1, 2006, an independent actuary performed a Plan valuation. The next valuation is scheduled for April 1, 2009. The results of the actuarial valuation and management's cost estimates as they apply to the Plan are summarized below:

	2006	2005
	($ thousands)	
Balance Sheet at March 31		
Market value of assets	$ -	$ -
Accrued benefit obligation	2,152	1,895
Unfunded obligation	2,152	1,895
Unamortized transitional obligation	(151)	(176)
Unamortized actuarial loss	(78)	(320)
Employee change liability, management estimate	-	124
Accrued benefit liability	$ 1,923	$ 1,523
Accrued Benefit Obligation		
Accrued benefit obligation at beginning of the year	$ 1,895	$ 1,391
Service cost	192	205
Interest cost	120	97
Assumption changes	85	-
Net Actuarial loss (gain) plus benefits paid of $26 ($33 in 2005)	(140)	202
Accrued benefit obligation at end of the year	$ 2,152	$ 1,895

ALBERTA SECURITIES COMMISSION

Note 8 (continued)

	2006	2005
Pension Expense	($ thousands)	
The pension expense for the Plan is as follows:		
Service cost	$ 192	$ 205
Interest cost	120	97
Amortization of transitional obligation	26	26
Recognized actuarial losses during year	88	110
Pension Expense	$ 426	$ 438

Actuarial assumptions for actuarial valuation of the Plan

The assumptions used in the 2006 actuarial valuation of the Plan are summarized below. The 2005 assumptions are based on the 2005 extrapolation of the Plan. The discount rate was established in accordance with the yield on long-term corporate bonds and applies to both the accrued benefit obligation and benefit costs. Other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on best estimate of the future experience of the plans.

	2006	2005
Discount rate, year end obligations	5.4%	5.8%
Discount rate, net benefit cost prior year	5.8%	6.1%
Rate of inflation	2.50%	2.65%
Salary increases	4.00%	3.65%
Remaining service life (EARSL)	6 years	5 years

NOTE 9 FUNDS HELD FOR OTHERS

The Commission holds, in a separate bank account, $4 ($9 in 2005) in cash for participants in the Market Integrity Computer Analysis ("MICA") system upgrade project. The Commission has recorded a total project expense of $14 ($164 in 2005). Funds are disbursed as payments are made for approved expenditures. Expenditures, if any, in excess of the amounts held for others and the Commission's contribution, require further participant approval and contribution. The current phase of the MICA project will assist participants in the analysis of trading activities and was completed in 2006. A decision on future system development is pending.

ALBERTA SECURITIES COMMISSION

NOTE 10 FEES AND SETTLEMENT COST RECOVERIES

	2006	2005
	($ thousands)	
Distribution of securities	$ 9,372	$ 9,178
Registrations	6,497	6,109
Annual financial statements	3,125	3,300
Orders (Applications)	291	300
Total fees	$ 19,285	$ 18,887
Settlement cost recoveries	$ 82	$ 212
Less: uncollectible amounts	(32)	(25)
Net realizable value	$ 50	$ 187

NOTE 11 COMMITMENTS AND CONTINGENCIES

Details of commitments to organizations outside the Commission and contingencies from guarantees and legal actions are set out below. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

(a) Commitments

Premises lease and equipment rental - Commitments arising from contractual obligations associated primarily with the eight-year lease of premises and three-year average rental of office equipment at March 31, 2006, amounted to $8,278 ($10,450 in 2005). These commitments become expenses of the Commission when the terms of the contracts are met.

	($ thousands)
2006-07	$ 1,646
2007-08	1,675
2008-09	1,660
2009-10	1,650
2010-11	1,647
Thereafter	-
Total	$ 8,278

Canadian Securities Administrators (CSA) - The Commission shares, based on an agreed upon cost sharing formula, the costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

SEDAR operations agreement - CDS INC. (CDS) operates the SEDAR electronic filing and payment system on behalf of the CSA under an August 1, 2004, agreement. The Commission, as one of the agreement signatories, commits to pay CDS 11.7% of any shortfall from SEDAR system operating costs that exceed revenues. Alternatively, CDS must pay to CSA SEDAR revenues in excess of system operating costs ("surplus"). The surplus is not divisible; the CSA owns it as a group. CDS

ALBERTA SECURITIES COMMISSION

Note 11 (continued)

payments received from SEDAR surpluses to October 31, 2005, and interest earned totals $8,865 at March 31, 2006. This amount is held in trust by the Ontario Securities Commission. The principal CSA administrators, including the ASC, have agreed that SEDAR surplus amounts can only be used to offset any shortfall in SEDAR revenues, develop or enhance the SEDAR and SEDI systems, and reduce SEDAR fees.

(b) Legal actions

The Commission is involved in various legal proceedings arising from its operations and regulatory activities, including a contingent liability with respect to a claim concerning the methodology used to calculate pension benefit payments under PSPP. The claim has been filed jointly and severally against the Province of Alberta and the employers participating in the PSPP. Management considers the likelihood of liability under these proceedings not to be determinable and, accordingly, an estimate of any contingent loss cannot be made.

NOTE 12 BUDGET

The Commission's budget was approved on January 19, 2005 and includes a contingency expense provision of $2,070 less a vacancy reserve of $140. A budget contingency provision of up to 10% of budget expenditures for unplanned expenses and revenue shortfalls is provided for in the Memorandum of Understanding between the Minister and the Commission. Commission members must approve any expenditure that is applied to the budget contingency.

NOTE 13 SPECIAL INVESTIGATIONS

Special investigation costs resulted from an investigation undertaken by the Independent Commission Members at the direction of the Minister of Finance and subsequent related projects. These non-recurring costs included: $468 ($38 in 2005) of fees for independent professional reviews of enforcement, personnel management and information technology business processes; $424 ($70 in 2005) of legal fees advising Members on Commission document confidentiality, wrongful dismissal and business process findings; $233 ($170 in 2005) of legal cost indemnification for Commission officers; and $143 ($18 in 2005) of incremental Member fees and expenses for managing these processes.

NOTE 14 RELATED PARTY TRANSACTIONS

The Commission is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The Commission conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $71 ($60 in 2005).

NOTE 15 COMPARATIVES

Certain comparative figures have been reclassified to conform to their 2006 presentation.

ALBERTA SECURITIES COMMISSION

SCHEDULE TO THE FINANCIAL STATEMENTS

SCHEDULE OF SALARIES & BENEFITS

Schedule A

For the Year Ended March 31, 2006

	Base Salary (1)	Cash Benefits (2)	Non-cash Benefits (3)	2006 Total	2005 Total
Chair, Securities Commission (4)	$ 433,614	$ 56,297	$ 111,002	$ 600,913	$ 698,386
Vice Chair, Securities Commission (4)	218,400	25,000	77,953	321,353	300,888
Vice Chair, Securities Commission (4)	218,400	30,000	51,040	299,440	253,519
Members (Independent)	466,735	-	-	466,735	367,848
Executives					
Executive Director	243,225	41,000	86,953	371,178	339,711
Director, Market Regulation (5)	150,360	37,805	48,838	237,003	242,797
Director, Corporate Finance (6)	51,484	22,082	60,020	133,586	229,978
Director, Enforcement	186,500	20,000	45,161	251,661	246,004
Director, Corporate Services (7)	140,921	24,232	61,042	226,195	197,793
Chief Accountant	180,765	35,000	23,947	239,712	207,108
General Counsel (8)	182,734	38,774	29,230	250,738	227,082
Controller (9)	78,750	14,500	12,833	106,083	-

(1) Base salary includes regular base pay and Member compensation arising from meeting attendance and hearing and application panel participation. Member compensation includes $140,000 ($18,000 in 2005) recorded as unusual professional fees.

(2) Cash benefits include bonuses, payments in lieu of vacation and Chair and Executive Director's automobile allowances.

(3) Employer's share of all employee benefits including pensions, registered retirement savings plan contributions, health and dental plans, group life insurance, employee and family assistance plan, disability plans, professional memberships, tuition, club memberships, workers' compensation and Supplemental Pension Plan expense.

(4) The Chair (three incumbents in 2006, one in 2005) and Vice Chairs are full time Commission Members. The Chair's compensation includes $88,000 ($195,000 in 2005) of accrued and unpaid Supplemental Pension Plan expense.

(5) The Director, Market Regulation was appointed in January 2006 and replaced the Director, Legal/Policy following reorganization. Amounts include a payment in lieu of vacation and Acting Director salary.

(6) The Director, Corporate Finance was appointed in March 2006 and replaced the Director, Capital Markets following reorganization. Amounts include a payment in lieu of vacation and three months of base salary.

(7) The Director, Corporate Services replaced the Director, Administrative Services in September 2005. Amounts include a payment in lieu of vacation and Acting Director salary.

(8) Includes payment in lieu of vacation.

(9) The Controller was appointed to the Senior Management group effective September 1, 2005.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule B

March 31, 2006

	Commission's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposit in the Consolidated Cash Investment Trust Fund	$ 108	$ 108	$ 90	$ 90
Public fixed-income securities				
Government of Canada				
direct and guaranteed	4,838	4,728	4,417	4,350
Provincial:				
Alberta, direct and guaranteed	107	103	8	9
Other, direct and guaranteed	2,963	3,094	3,259	3,419
Municipal	84	88	181	186
Corporate	7,957	7,779	5,323	5,196
Private fixed-income securities				
Corporate	1,405	1,306	1,373	1,353
	17,462	17,206	14,651	14,603
Accounts receivable and accrued investment income	374	374	175	175
Accounts payable and accrued liabilities	(139)	(139)	(69)	(69)
	235	235	106	106
	$ 17,697	$ 17,441	$ 14,757	$ 14,709

a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.70% per annum (2005: 4.34% per annum) and the following term structure based on principal amounts:

	2006	2005
	%	
under 1 year	2	3
1 to 5 years	34	38
5 to 10 years	33	31
10 to 20 years	12	12
over 20 years	19	16
	100	100

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule C

March 31, 2006

	Commission's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 36	$ 36	$ 38	$ 38
Public equities (a) (b)				
Financials	1,685	1,850	1,588	1,741
Energy	1,449	1,693	907	1,117
Materials	784	902	725	780
Industrials	334	370	260	287
Consumer discretionary	350	319	387	374
Telecommunication services	270	293	343	356
Information technology	288	262	321	314
Consumer staples	186	178	203	230
Health care	85	68	98	82
Utilities	52	49	72	79
	5,483	5,984	4,904	5,360
Receivable from sale of investments and accrued investment income	127	127	71	71
Accounts payable and accrued liabilities	(87)	(87)	(36)	(36)
	40	40	35	35
	$ 5,559	$ 6,060	$ 4,977	$ 5,433

(a) The Commission's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $2,211,000 (2005: $2,067,000), which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The industrial classifications are those used by the Toronto Stock Exchange indices.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENT RETURNS

Schedule D

The Commission uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Commission over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the return of pools with other pools or indices.

Investment returns percentages for the Commission are as follows:

	One Year Return					5 Year Compound Annualized
	2006	**2005**	**2004**	**2003**	**2002**	**Return**
Time-weighted rates of return						
Short-term fixed income	**4.2**	**3.7**	**4.2**	**2.9**	**4.0**	**3.8**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**5.5**	**5.4**	**11.7**	**9.5**	**5.7**	**7.5**
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**29.4**	**15.0**	**36.6**	**(17.5)**	**n/a**	**n/a**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*n/a*	*n/a*
Overall	**11.3**	**7.8**	**17.8**	**2.3**	**4.3**	**8.6**

ALBERTA TREASURY BRANCHES

Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Alberta Treasury Branches as at March 31, 2006, and the consolidated statement of income and changes in equity, and the consolidated statement of cash flows for the year then ended. These consolidated financial statements are the responsibility of Alberta Treasury Branches' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting priniciples used and signficant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Alberta Treasury Branches as at March 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 11, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA TREASURY BRANCHES

CONSOLIDATED BALANCE SHEET

As At March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Cash resources (Note 4)		
Cash and items in transit	$ 77,454	$ 26,279
Interest-bearing deposits with financial institutions	976,671	927,244
	1,054,125	953,523
Securities (Note 5)	1,381,444	932,511
Loans (Notes 6 and 7)		
Residential mortgage	6,378,725	5,818,780
Personal	2,478,312	2,091,904
Credit card	325,259	288,772
Business	5,825,602	5,106,655
Allowance for loan losses	(161,204)	(168,194)
	14,846,694	13,137,917
Other		
Premises and equipment (Note 8)	134,479	110,067
Other assets (Note 9)	231,073	247,214
	365,552	357,281
	$ 17,647,815	$ 15,381,232
Liabilities and equity		
Deposits (Note 10)		
Personal	$ 8,475,619	$ 8,003,418
Business and other	7,394,689	5,836,614
	15,870,308	13,840,032
Other liabilities (Note 11)	356,933	325,207
Subordinated debentures (Note 12)	71,579	65,719
Equity	1,348,995	1,150,274
	$ 17,647,815	$ 15,381,232

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

Approved by the Board:

R. Triffo
Chairman of the Board

B. McCook
Chairman of the Audit Committee

ALBERTA TREASURY BRANCHES

CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN EQUITY

For the Years Ended March 31

	2006	2005	2004
		($ thousands)	
Interest income			
Loans	$ 748,741	$ 657,838	$ 695,106
Securities	35,630	20,188	22,268
Deposits with financial institutions	30,298	21,857	23,227
	814,669	699,883	740,601
Interest expense			
Deposits	348,994	297,791	340,627
Subordinated debentures	3,424	3,346	2,690
	352,418	301,137	343,317
Net interest income	462,251	398,746	397,284
Other income			
Service charges	57,828	54,320	53,213
Credit fees	30,068	29,788	28,216
Other	18,664	21,543	10,001
Card fees	23,616	18,336	15,636
Investor services	17,994	8,632	3,276
Foreign exchange	7,451	6,689	5,930
	155,621	139,308	116,272
Total operating revenues	617,872	538,054	513,556
Provision for (recovery of) credit losses (Note 7)	688	(14,594)	15,859
Non-interest expenses			
Salaries and employee benefits (Notes 13 and 16)	219,013	189,410	168,028
Other	76,636	63,758	51,872
Communications and electronic processing	66,267	58,094	55,199
Premises and equipment, including amortization	56,547	54,073	50,574
	418,463	365,335	325,673
Net income	198,721	187,313	172,024
Equity at beginning of year	1,150,274	962,961	790,937
Equity at end of year	$ 1,348,995	$ 1,150,274	$ 962,961

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

ALBERTA TREASURY BRANCHES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended March 31

	2006	2005	2004
		($ thousands)	
Cash flows from operating activities			
Net income	$ 198,721	$ 187,313	$ 172,024
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	688	(14,594)	15,859
Amortization	27,886	25,862	24,676
Net changes in accrued interest receivable and payable	(2,620)	(10,263)	9,138
Other items, net	50,487	(5,321)	13,692
Net cash provided by operating activities	275,162	182,997	235,389
Cash flows from financing activities			
Net change in deposits	2,030,276	804,912	938,209
Repayment of subordinated debentures	(9,925)	(7,519)	-
Issuance of subordinated debentures	15,785	27,822	-
Net cash provided by financing activities	2,036,136	825,215	938,209
Cash flows from investing activities			
Net change in interest-bearing deposits with financial institutions	(49,427)	29,483	(377,120)
Purchase of investment securities	(11,008,614)	(7,910,221)	(7,802,340)
Proceeds from investment securities	10,559,681	7,832,707	7,526,193
Net change in loans	(1,709,465)	(992,270)	(455,430)
Net purchases of premises and equipment	(52,298)	(42,913)	(36,370)
Net cash used in investing activities	(2,260,123)	(1,083,214)	(1,145,067)
Net increase (decrease) in cash and cash equivalents	51,175	(75,002)	28,531
Cash and cash equivalents at beginning of year	26,279	101,281	72,750
Cash and cash equivalents at end of year	$ 77,454	$ 26,279	$ 101,281
Supplementary cash flow information:			
Amount of interest paid during the year	$ 355,715	$ 307,942	$ 341,462

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

ALBERTA TREASURY BRANCHES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2006
($ thousands)

NOTE 1 AUTHORITY

Alberta Treasury Branches ("ATB") is an Agent of the Crown in right of Alberta and operates under the authority of the *Alberta Treasury Branches Act*, Revised Statutes of Alberta, 2000, Chapter A-37. Under the Act, ATB was established as a provincial Crown corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. ATB is exempt from Canadian federal and Alberta provincial income taxes.

ATB' s primary business is providing financial services within Alberta.

NOTE 2 BASIS OF PRESENTATION

Management has prepared these Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of balance sheet assets and liabilities and disclosure of contingent assets and liabilities as at the balance sheet date as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates and the impact of any such differences will be recorded in future periods.

The most significant amounts and disclosures where ATB must make estimates include the allowances for credit losses, amortization of premises and equipment, assumptions underlying the accounting for employee future benefit obligations and the fair value of financial instruments, including derivative financial instruments.

Basis of Consolidation

These Consolidated Financial Statements include the assets, liabilities and results of operations and cash flows of ATB and its subsidiaries. All inter-company transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries which were created for the purpose of offering investor services are established by Order-In-Council and incorporated under the *Business Corporation Act* (Alberta);

- ATB Investment Services Inc. incorporated October 3, 1997;
- ATB Investment Management Inc. incorporated August 21, 2002; and
- ATB Securities Inc. incorporated February 6, 2003.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Operating revenues and expenses related to foreign currency transactions are translated using the average exchange rate for the year. Realized and unrealized gains and losses arising from these translations are included in "Other income" in the Consolidated Statement of Income.

ALBERTA TREASURY BRANCHES

Note 2 (continued)

Other Significant Accounting Policies

Other significant accounting policies followed in the preparation of these Consolidated Financial Statements are disclosed throughout the following Notes along with the related financial disclosures.

Comparative Amounts

Certain comparative amounts have been reclassified where necessary to conform to the presentation adopted in the current year.

NOTE 3 CHANGES IN ACCOUNTING POLICIES

Accounting Policy Changes Recently Adopted

In the current year, ATB has made no changes in accounting policies, as no new accounting pronouncements issued by Canadian standards setters were relevant to the accounts. ATB had adopted the following accounting policies in the prior years for which comparative figures are presented:

Hedging relationships

See Note 14 for details.

Sources of generally accepted accounting principles

As of December 31, 2004, ATB prospectively adopted the Canadian Institute of Chartered Accountants' ("CICA's") new accounting standard Section 1100, "Generally Accepted Accounting Principles". This standard provides additional guidance on sources to consult when selecting accounting policies and determining appropriate disclosures on matters not covered explicitly in the primary sources of Canadian accounting standards. Following the adoption of this new accounting standard, balances receivable from or payable to other financial institutions arising from the clearing system's processing of items, previously presented as a component of "Cash resources" are now presented as "Cheques and other items in transit" under "Other assets" or "Other liabilities", respectively.

NOTE 4 CASH RESOURCES

Cash consists of cash on hand, bank notes and coins. Cash resources also include deposits with the Bank of Canada, deposits with other financial institutions and any net amounts receivable for cheques and other items in the clearing systems that settle overnight.

Deposits with the Bank of Canada and other financial institutions are recorded at cost, as are items in transit. Interest income on interest-bearing deposits is recorded on an accrual basis.

The Investor Services subsidiaries held restricted cash balances (clients' cash held in trust) amounting to $11,979 as at March 31, 2006 (2005: $10,947).

ALBERTA TREASURY BRANCHES

NOTE 5 SECURITIES

Debt securities are recognized at unamortized acquisition cost and any premiums or discounts are amortized using the effective yield method over the period to maturity. All debt securities held are purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive.

Dividend and interest income as well as the amortization of premiums and discounts are recorded in "Interest income" in the Consolidated Statement of Income. Gains and losses realized on the disposal of securities, calculated using the average cost method, and any provisions for loss in value that is considered to be other than temporary, are also included in "Interest income" in the period of disposal or impairment.

The carrying value of securities, by remaining term to maturity, is as follows:

	Less than 1 year	From 1-5 years	2006 Total carrying value	2005 Total carrying value
	($ thousands)			
Issued or guaranteed by the Canadian federal government	$ 12,594	$ -	$ 12,594	$ 13,659
Corporate debt	1,258,860	109,990	1,368,850	918,852
	$ 1,271,454	$ 109,990	$ 1,381,444	$ 932,511

The total carrying value of securities in the preceding schedule includes securities denominated in US funds totalling $17,994 as at March 31, 2006 (2005: $62,673).

As described in Note 15, ATB has pledged certain securities as at March 31, 2006 having a total carrying value of $198,340 (2005: $215,100).

NOTE 6 LOANS

Loans are stated net of any unearned fee income and net of specific and general allowances for credit losses. Interest income is recorded on an accrual basis, except for impaired loans.

Impaired Loans

Impaired loans, except for credit cards, are classified as such when there is no longer reasonable assurance as to the timely collection of principal and interest, or when principal or interest payments are 90 days past due. Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become past due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

When a loan is classified as impaired, the carrying amount of the loan is reduced to its estimated net realizable amount by writing off all or part of the loan or by taking a specific allowance for credit losses, and interest income on the loan ceases to be accrued. No cash received on an impaired loan is recorded as interest income until such time as any prior write-offs or specific allowances and external legal fees have been recovered and all past due principal has been paid. Impaired loans are returned to performing status when there is reasonable assurance of the timely collection of all principal and interest, all arrears have been collected, legal fees recovered and allowances for loan losses have been reversed.

ALBERTA TREASURY BRANCHES

Note 6 (continued)

Foreclosed assets held for sale in settlement of an impaired loan are measured at estimated fair value at the date of foreclosure and are presented as a component of "Loans" in the Consolidated Balance Sheet.

Loan Fees

Loan and commitment fees in excess of $50 thousand are deferred and recognized as "Other income" in the Consolidated Statement of Income over the term of the loan or over the commitment period, as appropriate. The unrecognized portion of loan and commitment fees is netted against "Loans" in the Consolidated Balance Sheet.

Loans consist of the following:

	Gross loans	Specific allowances	General allowances	2006 Net carrying value	2005 Net carrying value
			($ thousands)		
Residential mortgage	$ 6,378,725	$ 690	$ 3,325	$ 6,374,710	$ 5,813,431
Personal	2,478,312	1,962	34,651	2,441,699	2,056,130
Credit card	325,259	-	14,195	311,064	269,745
Agricultural	1,317,018	5,235	16,016	1,295,767	1,256,557
Independent business	1,962,726	7,693	41,977	1,913,056	1,713,211
Commercial	2,545,858	525	34,935	2,510,398	2,028,843
	$ 15,007,898	$ 16,105	$ 145,099	$ 14,846,694	$ 13,137,917

The total net carrying value of loans above includes loans denominated in US funds totalling $152,139 as at March 31, 2006 (2005: $66,820).

Impaired loans (included in the preceding schedule) consist of the following:

	Gross impaired loans	Specific allowance	2006 Net carrying value	2005 Net carrying value
		($ thousands)		
Residential mortgage	$ 19,504	$ 690	$ 18,814	$ 24,338
Personal	6,678	1,962	4,716	5,980
Agricultural	18,728	5,235	13,493	21,528
Independent business	15,795	7,693	8,102	9,117
Commercial	1,588	525	1,063	1,294
	$ 62,293	$ 16,105	$ 46,188	$ 62,257

Concentration of Credit Risk

ATB faces credit risk from the risk of loss due to borrowers failing to meet their financial obligations. The loan portfolio represents the largest single source of credit risk to ATB, but credit risk also arises from off-balance sheet transactions such as over-the-counter derivatives and other credit instruments (see Notes 14 and 15, respectively).

ALBERTA TREASURY BRANCHES

Note 6 (continued)

Concentrations of credit risk exist where a significant number of credit consumers are located in the same geographic region, engage in similar activities or have similar economic characteristics. Their ability to meet their contractual obligations to ATB is similarly affected by changes in economic, political or other conditions.

ATB is inherently exposed to significant concentrations of credit risk as its customers are all participants in the Alberta economy, which, in past decades, has shown strong growth and occasional sharp declines. ATB manages its credit risk through diversification of its credit portfolio by limiting concentrations to single borrowers, industries and geographical regions of Alberta.

As at March 31, 2006, no single industry segment represents more than 21.65% of total gross business loans and no single borrower represents more than 0.37% of the total gross loan portfolio (2005: 24.16% and 0.62%, respectively).

NOTE 7 ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level management considers adequate to absorb credit-related losses for all items in its credit portfolio. The allowance relates primarily to loans and other on-balance sheet items but also provides for any credit risk relating to off-balance sheet items such as derivative financial instruments (see Note 14) or loan guarantees and letters of credit (see Note 15).

The allowance for credit losses consists of specific allowances for impaired loans and general allowances for credit risks. It is presented in the Consolidated Balance Sheet as either a reduction of the related loan balance or, for amounts provided to cover potential losses from off-balance sheet items and any portion of loan-related allowances in excess of the loan balance, included in "Other liabilities." The allowance is increased by the "Provision for credit losses" that represents ATB's net credit loss experience for the year and is recorded in the Consolidated Statement of Income. The allowance is decreased by the amount of any provision related to loans written-off and is net of any recoveries of previously recognized provisions.

Specific Allowances

The specific allowances on non-consumer impaired loans (including credit card balances) are established on an item-by-item basis to reduce the carrying value of the impaired loans to the amount expected to be recovered. Various methods are used to determine the net recoverable value of impaired loans including the discounted value of estimated future cash flows, the fair value of any underlying security discounted to the amount recoverable in the event of realization, or the observable market value for the loan.

The specific allowance on consumer loans is calculated using a formula based on recent loss experience. No specific allowance is provided for impaired consumer credit card loans, as balances are written off if payment has not been received within 180 days though collection efforts may still continue. Any change in the amount expected to be recovered on an impaired loan is reflected in the "Provision for credit losses" in the Consolidated Statement of Income.

General Allowance

A general allowance for credit losses is established to provide for impairments in the credit portfolio as at the balance sheet date that cannot be specifically identified on an item-by-item basis and therefore have not been considered in the establishment of specific allowances.

ALBERTA TREASURY BRANCHES

Note 7 (continued)

The level of the general allowance is initially determined by applying expected loss factors to the loan and off-balance sheet credit portfolios. For consumer balances (including personal and other instalment loans, residential mortgages and personal credit cards), expected losses are determined at the product portfolio level, based on credit rating-based loss ratios, expected default rates and historical loss experiences. For commercial balances (including business loans, business credit cards and credit instrument balances, adjusted for expected utilization), expected losses are determined at the borrower category level by reference to internal risk ratings, expected default rates by risk rating and historical loss experiences. The consumer and commercial components of the general allowances thus determined are then adjusted to reflect management's best judgement concerning possible model and estimation risks, the strength of the Alberta economy and the overall state of the business cycle.

The general allowance is reassessed quarterly and will normally fluctuate as a result of changes in credit portfolio levels, composition and risk profile. Trends in probability of loss, severity of loss and eventual exposure on default are also considered, as is management's assessment of other factors that may affect the losses inherent in the credit portfolio such as business mix, economic and credit market conditions and trends.

Special General Allowance

In the event certain industry sectors experience specific changes in economic conditions or adverse events that are considered to increase credit risk, an additional special general allowance may be established. Such allowances are established to provide for losses inherent in the credit portfolio that have not been specifically identified and that the general allowance is not considered sufficient to provide for. The amount of any special general allowance is reassessed quarterly using expected loss methodologies that consider the probability of further changes in the conditions or adverse event that gave rise to the initial establishment of the allowance. The follow-on probability of default, potential loss given default and the level of expected recoveries, if any, are also considered.

The continuity of the allowances for credit losses is as follows:

	Specific			General			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
					($ thousands)				
Balance at beginning of year	$ 32,147	$ 39,935	$ 35,012	$ 140,829	$ 157,719	$ 146,311	$ 172,976	$ 197,654	$ 181,323
Write-offs	(14,584)	(16,213)	(12,394)	-	-	-	(14,584)	(16,213)	(12,394)
Recoveries	5,367	6,129	12,866	-	-	-	5,367	6,129	12,866
Provision for (recovery of) credit losses	(3,582)	2,296	4,451	4,270	(16,890)	11,408	688	(14,594)	15,859
Balance at end of year	$ 19,348	$ 32,147	$ 39,935	$ 145,099	$ 140,829	$ 157,719	164,447	172,976	197,654
Less: Allowance for cost of credit recovery included in other liabilities							3,243	4,782	4,758
Allowance for loan losses							$ 161,204	$ 168,194	$ 192,896

The specific allowance for credit losses as at March 31 consists of the following:

	2006	2005
	($ thousands)	
Specific loan losses	$ 16,105	$ 27,365
Credit recovery costs	3,243	4,782
	$ 19,348	$ 32,147

ALBERTA TREASURY BRANCHES

Note 7 (continued)

The 2005 general allowance for credit losses presented above includes a special allowance of $8.0 million for losses related to Bovine Spongiform Encephalopathy ("BSE") (2004: $17.5 million). This special general allowance was first established as at June 30, 2003 and has been drawn down over time as ATB came to understand the true impact of BSE on its clients. The special allowance was eliminated during the year ended March 31, 2006.

NOTE 8 PREMISES AND EQUIPMENT

Premises and equipment are carried at cost less accumulated amortization except for land, which is carried at cost. Premises, computer equipment and software, other equipment and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives for the various asset classes are as follows:

• Premises	Up to 20 years
• Computer equipment and software	3 to 5 years
• Other equipment	5 to 10 years
• Leasehold improvements	Lease term plus first renewal period, to a maximum of 10 years

	Cost	Accumulated amortization	2006 Net carrying value	2005 Net carrying value
	($ thousands)			
Land	$ 7,437	$ -	$ 7,437	$ 7,618
Buildings	69,917	53,640	16,277	18,824
Computer equipment and software	134,328	70,406	63,922	42,810
Other equipment	36,274	25,426	10,848	10,734
Leasehold improvements	87,270	51,275	35,995	30,081
	$ 335,226	$ 200,747	$ 134,479	$ 110,067

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2006, in respect of the above assets was $27,886 (2005: $25,862; 2004: $24,676).

Gains and losses on the disposal of assets are recorded in the Consolidated Statement of Income in the year of disposal. When events or changes in circumstances indicate that the carrying value of premises and equipment may not be recoverable, we assess whether the asset may have been impaired. The net carrying value of any such impaired assets are written-down to their estimated fair value. There were no such impairment write-downs recognized during the year ended March 31, 2006 (2005: $4,525; 2004: $ 4,728). These amounts are recorded in "Premises and equipment, including amortization" in the Consolidated Statement of Income.

ALBERTA TREASURY BRANCHES

NOTE 9 OTHER ASSETS

Other assets are comprised as follows:

	2006	2005
	($ thousands)	
Accrued interest receivable	$ 125,595	$ 126,272
Cheques and other items in transit	64,000	70,000
Premiums paid on derivative instruments (see Note 14)	21,310	25,869
Prepaid expenses and other receivables	10,975	8,590
Accrued pension benefit asset (see Note 13)	650	7,974
Fair value adjustment of derivative instruments ineligible for hedge accounting, net (see Note 14)	3,929	6,551
Other	4,614	1,958
	$ 231,073	$ 247,214

NOTE 10 DEPOSITS

Deposit balances are comprised as follows:

	2006				2005
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total
			($ thousands)		
Personal	$ 1,483,305	$ 1,352,790	$ 5,639,524	$ 8,475,619	$ 8,003,418
Business	3,008,870	540,997	2,553,445	6,103,312	4,690,311
Financial institutions	-	-	1,291,377	1,291,377	1,146,303
	$ 4,492,175	$ 1,893,787	$ 9,484,346	$ 15,870,308	$ 13,840,032

Total deposits presented above include $221,879 (2005: $207,230) denominated in US funds.

As at March 31, 2006, deposits by various departments and agencies of the government of the Province of Alberta included in the preceding schedule total $3,577 (2005: 4,000) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $1,315 (2005: $2,579).

The repayment of all deposits without limit, including accrued interest, is guaranteed by the Crown in right of Alberta in respect of which the Crown assesses an annual deposit guarantee fee against ATB. For the year ended March 31, 2006, the fee was $15,236 (2005: $15,784).

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NOTE 11 OTHER LIABILITIES

Other liabilities are comprised as follows:

	2006	2005
	($ thousands)	
Accrued interest payable	$ 133,761	$ 137,058
Accounts payable and accrued liabilities	115,595	96,249
Cheques & other items in transit	82,500	69,000
Deposit guarantee fee payable	15,236	15,784
Due to clients, brokers and dealers	5,679	2,755
Accrued pension benefit liability (see Note 13)	2,904	2,504
Other	1,258	1,857
	$ 356,933	$ 325,207

NOTE 12 SUBORDINATED DEBENTURES

ATB privately places debentures with the Crown in right of Alberta. These debentures, which are unsecured and subordinated to deposits and other liabilities, are issued following each fiscal year-end in respect of ATB's obligation for the year's deposit guarantee fee. These subordinated debentures are non-convertible, non-redeemable, non-transferrable, and bear a fixed rate of interest payable semi-annually.

ATB's obligation for the deposit guarantee in respect of the year ended March 31, 2006 is recorded in "Other liabilities" in the Consolidated Balance Sheet (see Note 11). Subordinated debentures, issued in respect of ATB's obligation for the deposit guarantee fee to March 31, 2006, are comprised as follows:

Maturity date	Interest rate	2006	2005
		($ thousands)	
June 30, 2005	6.540%	$ -	$ 9,925
June 30, 2006	5.840%	12,738	12,738
June 30, 2007	5.810%	15,234	15,234
June 30, 2008	4.287%	15,985	15,985
June 30, 2009	3.800%	11,837	11,837
June 30, 2010	4.200%	15,785	-
		$ 71,579	$ 65,719

NOTE 13 EMPLOYEE FUTURE BENEFITS

ATB provides future pension benefits to current and past employees through a combination of defined benefit and defined contribution plans but does not provide any other employee future benefits.

ALBERTA TREASURY BRANCHES

Note 13 (continued)

ATB's current non-management employees participate in the Public Service Pension Plan ("PSPP") with other Alberta public sector employers. The PSPP is a defined benefit pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees a registered pension plan with defined benefit and defined contribution provisions as well as, for select employees, a non-registered defined benefit supplemental plan. ATB is also committed to providing combined pensionable service benefits to current or past management employees who become ineligible to participate in the PSPP upon promotion to a management position.

Accounting for Defined Benefit Plans - Registered, Supplemental and Other Plans

The registered plan, supplemental plan and other pension obligations provide future employee benefits based on members' years of service and highest average salary. Actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service, which incorporates management's best estimate of long-term investment returns, salary growth and other cost escalation factors, retirement ages of employees, mortality and other actuarial factors.

The current cost of pension benefits is determined as the sum of the following:

- current period cost of service;
- notional interest on the actuarial projected benefit obligation;
- expected long-term return on plan assets;
- the amortization of actuarial gains and losses; and
- the amortization of any amounts arising from changes to the plan design or the actuarial assumptions.

The expected long-term return on plan assets is management's best estimate of the long-term rate of return, net of investment expenses that will be earned by the plan's assets based on a market-related value of those assets. This market-related value of plan assets takes into account changes in the fair value of plan assets using a four-year moving average.

Actuarial experience gains or losses are recognized only if the net accumulated unrecognized actuarial gain or loss exceeds 10 per cent of the greater of (i) the accrued benefit obligations or (ii) the market-related value of plan assets. That excess amount is amortized over the average remaining service period of active employees for the plan. The first 10 per cent of the net accumulated actuarial gain or loss continues to not be recognized for accounting purposes.

An initial transition asset (which arose as of March 31, 1999 when ATB prospectively adopted the then-new accounting standard on employee future benefits) is being amortized on a straight-line basis over 10 years, the expected average remaining service period ("EARSP") of active participants as at that time. A past service amendment (which arose as of April 1, 2003 when the Supplemental Plan was amended to include limits to pensionable earnings, reducing the accrued benefit obligation related to then past-services) is being amortized on a straight-line basis over 14 years, the EARSP of participants expected to receive supplemental benefits as at that time.

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Accounting for PSPP and Defined Contribution Plans

ATB accounts for its participation in PSPP on the same basis as it accounts for the cost of the defined contribution provisions of the registered plan. In both cases, funding contributions are expensed as they become due and are recorded in "Salaries and employee benefits" in the Consolidated Statement of Income. For the year ended March 31, 2006, expenses related to the PSPP plan were $4,570 (2005: $4,136; 2004: $3,475) and expenses related to defined contribution provisions of the registered plan were $5,676 (2005: $5,009; 2004: $3,668).

ATB is finalizing arrangements with the management of PSPP to assume pension obligations relating to certain current ATB associates who participated in PSPP prior to joining the ATB defined benefit plan (hereinafter referred to as the "PSPP take-on"). The estimated net impact of this has been accounted for as a plan amendment in the current year accounts, increasing the projected benefit obligation by $5,438 for the defined benefit plan and by $686 for other pension obligations, and increasing the net pension benefit expense by $4,380 for the defined benefit plan and by $553 for other pension obligations.

Plan valuations, asset allocation and funding

ATB measures its accrued benefit obligations and the market-related values of plan assets for accounting purposes as at March 31 each year for the registered plan, supplemental plan and other pension obligations. The most recent actuarial valuation of the registered pension plan for funding purposes was as of December 31, 2003, and the next required valuation date for funding purposes is December 31, 2006.

The plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt and other assets. The policy targets in effect as at March 31, 2006 were unchanged from 2005 and 2004. The plan's actual and target asset allocations are as follows:

	Target 2006		Actual	Actual	Actual
	Normal	Max-Min	2006	2005	2004
			(in percent)		
Equities					
Canadian	40	30-50	44	43	43
Foreign	30	20-40	28	26	26
	70		72	69	69
Fixed income					
Canadian	30	25-40	28	31	31
Cash	-	0-15	-	-	-
	100		100	100	100

ATB makes regular funding contributions to the registered defined benefit plan in accordance with the most recent valuation for funding purposes. The supplemental plan and other pension obligations are not pre-funded and supplemental plan benefits are paid from ATB's assets as they become due.

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Note 13 (continued)

Cash payments

Total cash paid or payable for employee future benefits for the year ended March 31, 2006, consisting of cash contributed by ATB to the funded registered pension plan, cash payments directly to beneficiaries for the unfunded supplementary pension plan, and cash contributed to the defined contribution plan and the PSPP plan, was $13,202 (2005: $10,775; 2004: $18,136).

Net accrued pension benefit asset (liability)

The funded status and net accrued pension benefit asset (liability) for the defined benefit provisions of the registered pension plan and the other pension obligations (which comprise the Supplemental Plan and the additional obligation recognized in respect of the PSPP takeon) are comprised as follows:

	2006	2005
	($ thousands)	
Registered plan		
Fair value of plan assets	$ 94,127	$ 78,170
Projected benefit obligation	(118,040)	(95,894)
Plan funding deficit	(23,913)	(17,724)
Unamortized initial transition asset	(1,182)	(1,576)
Unamortized past service amendment	1,058	-
Unamortized actuarial net loss	24,687	27,274
Accrued pension benefit asset	$ 650	$ 7,974
Supplemental & Other		
Fair value of plan assets	$ -	$ -
Projected benefit obligation	(2,442)	(1,541)
Plan funding deficit	(2,442)	(1,541)
Unamortized past service amendment	(818)	(1,037)
Unamortized actuarial net loss	356	74
Accrued pension benefit liability	$ (2,904)	$ (2,504)

The net accrued pension benefit asset (liability) is included in "Other assets" or "Other liabilities" in the Consolidated Balance Sheet as appropriate. See Notes 9 and 11, respectively.

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Change in plan assets and benefit obligations

Changes in the estimated financial position of the defined benefit provisions of the registered pension plan and the other pension obligations are comprised as follows:

	Registered Plan			Supplemental and Other		
	2006	2005	2004	2006	2005	2004
			($ thousands)			
Change in fair value of plan assets						
Fair value of plan assets at beginning of year	$ 78,170	$71,463	$50,324	$ -	$ -	$ -
Contributions from ATB	2,374	1,611	10,974	393	19	19
Contributions from employees	1,069	1,042	987	-	-	-
Actual return on plan assets	16,220	5,896	10,602	-	-	-
Benefits paid	(2,798)	(1,842)	(1,424)	(393)	(19)	(19)
Actual plan expenses	(908)	-	-	-	-	-
Fair value of plan assets at end of year	$ 94,127	$78,170	$71,463	$ -	$ -	$ -
Change in projected benefit obligation						
Projected benefit obligation at beginning of year	$ 95,894	$85,424	$68,441	$ 1,541	$ 1,117	$ 1,851
Past service amendment	-	-	-	-	-	(1,210)
Actuarial loss	10,294	3,975	11,048	294	164	282
Current service cost	2,365	2,119	1,543	221	207	163
Contributions from employees	1,069	1,042	987	-	-	-
Plan amendments re. PSPP take-on	5,438	-	-	686	-	-
Interest cost	5,778	5,176	4,829	93	72	50
Benefits paid	(2,798)	(1,842)	(1,424)	(393)	(19)	(19)
Projected benefit obligation at end of year	$118,040	$95,894	$85,424	$ 2,442	$ 1,541	$ 1,117

Defined Benefit Pension Expense

Pension benefit expense for the defined benefit provisions of the registered plan and for the other pension obligations is comprised as follows:

	Registered plan			Supplemental and Other		
	2006	2005	2004	2006	2005	2004
			($ thousands)			
Current service cost	$ 3,265	$ 2,119	$ 1,543	$ 221	$ 207	$ 163
Interest cost on projected benefit obligation	5,778	5,176	4,829	93	72	50
Plan amendments re. PSPP take-on	5,438	-	-	686	-	(1,210)
Actual return on plan assets	(16,220)	(5,896)	(10,602)	-	-	-
Actuarial losses	10,294	3,975	11,048	294	164	282
	8,555	5,374	6,818	1,294	443	(715)
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between actual and expected return on plan asets	10,659	606	6,438	-	-	-
Difference between actual actuarial losses arising and actuarial losses amortized	(8,064)	(2,037)	(9,878)	(282)	(164)	(306)
Difference between actual and recognized plan amendments	-	-	-	-	-	1,210
Amortization of initial transition asset	(394)	(394)	(394)	-	-	-
Amortization of past service amendment	(1,058)	-	-	(219)	(86)	(86)
Net pension benefit expense recognized	$ 9,698	$ 3,549	$ 2,984	$ 793	$ 193	$ 103

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Key Assumptions and Sensitivities

The significant assumptions used in the actuarial determination of projected benefit obligations and the related net pension benefit expenses are, on a weighted average basis, as follows:

	Registered plan			Supplemental and Other		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Accrued benefit obligation as at March 31						
Discount rate at end of year	5.40%	5.90%	6.00%	5.40%	5.90%	6.00%
Rate of compensation increase	4.20%	4.45%	4.25%	5.10%	4.50%	4.50%
Defined benefit expense for the year ended						
Discount rate at beginning of year	5.90%	6.00%	7.00%	5.90%	6.00%	7.00%
Expected long-term return on plan assets	7.35%	7.35%	7.35%	7.35%	-	-
Rate of compensation increase	4.45%	4.25%	4.25%	4.50%	4.50%	4.50%
Avg. remaining service period of active employees	9 years	9 years	9 years	14 years	14 years	14 years

The following table outlines the possible impact of changes in certain key weighted average economic assumptions used to measure the accrued pension benefit obligations as at March 31, 2006 and the related expense for the year then ended.

	Registered plan		Supplemental and Other	
	Benefit obligation	**Benefit expense**	**Benefit obligation**	**Benefit expense**
	($ thousands)			
Discount rate				
Impact of: 1.0% increase	$ (18,060)	$ (1,912)	$ (439)	$ (55)
1.0% decrease	$ 23,077	$ 2,317	$ 551	$ 43
Inflation rate				
Impact of: 1.0% increase	$ 14,584	$ 2,220	$ (80)	$ (53)
1.0% decrease	$ (12,506)	$ (1,910)	$ 122	$ 57
Rate of compensation increase				
Impact of: 0.25% increase	$ 1,039	$ 149	$ -	$ -
0.25% decrease	$ (1,035)	$ (185)	$ -	$ -
Expected long-term rate of return on plan assets				
Impact of: 1.0% increase	$ -	$ (755)	$ -	$ -
1.0% decrease	$ -	$ 755	$ -	$ -

This sensitivity analysis should be used with caution as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables and actual experience may result in changes to a number of key assumptions at the same time. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

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NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, currency exchange rate, the price of an equity or debt security or a credit instrument, or an equity index. ATB uses such instruments for risk management purposes and does not act as an intermediary in this market except insofar as ATB occasionally enters into derivative contracts with its customers for the customer to hedge its own exposure to US dollar currency risk. ATB does not accept any net exposure to such derivative contracts (except for credit risk) as it either enters into offsetting contracts with other counterparties or incorporates them into its own risk management programs.

The main derivative financial instruments used by ATB include swaps, options and foreign exchange forward contracts.

- Swaps are transactions where two parties agree to exchange defined cash flows. ATB enters into interest rate swaps whereby it exchanges fixed and floating rate interest rate payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used to manage exposure to interest rate fluctuations, primarily arising from the loan and deposit portfolios.
- Options are transactions where the party that writes an option contract charges the buyer a premium in exchange for the right, but not the obligation, to either buy or sell a specified amount of currency or financial instruments at a specified price on a future date or within a specified period of time. ATB buys specialized forms of option contracts such as interest rate caps, collars and swap options as well as equity-linked options direct from counterparties in the over-the-counter market (i.e, not purchased on market exchanges). These are used to manage exposure to interest rate and equity market fluctuations, primarily arising from the loan and deposit portfolios.
- Foreign exchange forward contracts are transactions conducted in the over-the-counter markets where two parties agree to either buy or sell a specified amount of a currency or security at a specific price and date in the future. ATB uses foreign exchange forward contracts to manage currency exposure, either arising from its own foreign-currency denominated loans and deposits, or for its customers.

Non-trading Derivatives and Hedge Accounting

ATB's non-trading derivative portfolio is not intended for speculative income generation but for asset/liability management purposes, that is, to manage interest rate, foreign exchange and equity-related exposures. These instruments are recorded using hedge accounting, when appropriate, from April 1, 2004 onwards.

Hedging relationships that meet the conditions of CICA Accounting Guideline 13 "Hedging Relationships" (AcG-13) qualify for hedge accounting whereby income or expenses on hedging instruments designated within qualifying hedges are recognized in the Consolidated Income Statement in the same category and period as the related hedged items. The book value or carrying value of derivatives eligible for hedge accounting consists of the unamortized balance of premiums paid on entering into the contract (if any) plus any net interest receivable/payable in respect of the contract as at the balance sheet date.

For a derivative instrument to qualify for hedge accounting under AcG-13, ATB must designate and formally document the hedge relationship at the inception of the agreement. The hedge relationship must also meet certain effectiveness criteria - changes in the fair value of the derivative instrument must be highly effective in offsetting either changes in the amount of future cash flows or changes in the fair values of the on-balance sheet items being hedged. Hedge effectiveness is evaluated both at the inception of the relationship and, where appropriate, on a quarterly basis thereafter.

Any realized gains and losses from the early termination of a derivative financial instrument that qualified for hedge accounting are amortized over the remaining original life of the underlying asset or liability with the

ALBERTA TREASURY BRANCHES

Note 14 (continued)

corresponding deferred gains or losses recorded in "Other liabilities" or "Other assets" in the Consolidated Balance Sheet, as appropriate.

Any non-trading derivatives that do not qualify for hedge accounting are accounted for in the same manner as trading derivatives.

Discontinuance of Hedge Accounting

A hedging relationship is terminated if some or all of the hedge ceases to be highly effective or if the derivative is no longer designated as a hedging instrument. When this occurs, the derivative instrument (or ineffective portion thereof) is marked to market and the resultant realized or unrealized gain or loss is deferred in "Other liabilities" or "Other assets" in the Consolidated Balance Sheet, as appropriate and then amortized into "Other income" over the remaining term of the instrument. A hedging relationship is also terminated if some or all of the underlying asset or liability is itself extinguished and the derivative remains outstanding. In this scenario, the derivative instrument (or ineffective portion thereof) is marked to market and the resultant gain or loss is recognized in income in the same period as the termination.

Trading Derivatives

ATB does not enter into derivative contracts for trading purposes except to accommodate its clients in managing their US dollar currency risk exposures. In such instances, any resultant exposure to ATB in excess of its risk tolerances is simultaneously offset with another derivative contract.

Trading derivatives (and derivatives that do not meet the criteria for hedge accounting, either at inception or subsequently) are measured at fair value (or "marked to market"). Any such contracts having a positive fair value are presented as assets and those having a negative fair value are presented as liabilities as a component of "Other assets" or "Other liabilities" in the Consolidated Balance Sheet, as appropriate. Any subsequent realized or unrealized changes in value are recorded in "Other Income" in the Consolidated Statement of Income.

Prior Year Change in accounting policy

As of April 1, 2004, ATB prospectively adopted AcG-13 and the CICA Emerging Issues Committee abstract 128 "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments" (EIC-128). AcG-13 provided detailed guidance and more stringent conditions for the use of hedge accounting, including the identification, designation, documentation and effectiveness of hedging relationships.

Prior to April 1, 2004, ATB hedged a significant portion of its interest rate risk on a net basis, a practice commonly referred to as "macro" or "economic" hedging. As AcG-13 does not allow for hedge accounting for these types of hedges, these hedges were replaced with AcG-13 compliant hedges that are identified with specific hedged items.

ATB reviewed and assessed each of its hedging relationships as of April 1, 2004. Hedge accounting was discontinued as of that date for those hedging relationships that failed to meet the AcG-13 criteria. AcG-13 requires that on transition, the difference between the carrying value and the fair value of these discontinued hedges be deferred and amortized over the remaining life of the underlying hedged asset or liability. The impact of this transition was the recognition of unrealized gains and losses of $2,114 and $541, respectively, as of April 1, 2004. These amounts were deferred in the Consolidated Balance Sheet, as appropriate, and will be amortized to income over the original life of the underlying hedged item, which ranges from one to five years. The net amount amortized into "Net Interest Income" for the year ended March 31, 2006 was $112 (2005: $1,132).

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Note 14 (continued)

Financial Statement Presentation

Derivative financial instruments recorded in the Consolidated Balance Sheet as at March 31 are comprised as follows:

	Assets		Liabilities	
	2006	**2005**	**2006**	**2005**
	($ thousands)			
Fair value of derivatives ineligible for hedge accounting	$ 9,403	$ 8,266	$ 851	$ 225
Book value of derivatives eligible for hedge accounting	16,197	22,872	1,012	-
Total	$25,600	$ 31,138	$ 1,863	$ 225

Book value of derivatives eligible for hedge accounting presented above includes any unamortized premium and any interest amounts payable or receivable in respect of such derivative contracts as at the balance sheet date.

Fair value of derivatives

Fair value represents an estimate as at that point in time that may change in subsequent reporting periods due to changing market conditions or other factors. Fair value estimates of over-the-counter derivative financial instruments are determined using pricing models that take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e. having positive fair value) and contracts in an unfavourable position (i.e. having negative fair value) is comprised as follows:

	2006			2005		
	Favourable position	**Unfavourable position**	**Net**	**Favourable position**	**Unfavourable position**	**Net**
	($ thousands)					
Contracts ineligible for hedge accounting						
Interest rate contracts						
Options	$ 1,196	$ -	$ 1,196	$ 923	$ (92)	$ 831
Swaps	-	(851)	(851)	1,471	(63)	1,408
	1,196	(851)	345	2,394	(155)	2,239
Foreign exchange contracts						
Forwards	4	-	4	76	(70)	6
Equity contracts						
Options	8,203	-	8,203	5,796	-	5,796
Total fair value	$ 9,403	$ (851)	$ 8,552	$ 8,266	$ (225)	$ 8,041
Contracts eligible for hedge accounting						
Interest rate contracts						
Options	$ 133	$ -	$ 133	$ 743	$ (75)	$ 668
Swaps	7,485	(3,434)	4,051	41	(432)	(391)
	7,618	(3,434)	4,184	784	(507)	277
Equity contracts						
Options	70,683	-	70,683	49,481	-	49,481
Total fair value	$ 78,301	$ (3,434)	$ 74,867	$ 50,265	$ (507)	$ 49,758
Total book value - contracts eligible for hedge accounting			$ 15,185			$ 22,872

ALBERTA TREASURY BRANCHES

Note 14 (continued)

Notional Principal Amounts

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Balance Sheet.

	2006			2005
	Ineligible for hedge accounting	Eligible for hedge accounting	Total	Total
	($ thousands)			
Interest rate contracts				
Options	$ 401,730	$ 407,597	$ 809,327	$ 747,191
Swaps	350,000	1,750,000	2,100,000	1,300,000
	751,730	2,157,597	2,909,327	2,047,191
Foreign exchange contracts				
Forwards	453	-	453	7,273
Equity contracts				
Options	27,480	291,850	319,330	337,210
	$ 779,663	$ 2,449,447	$ 3,229,110	$ 2,391,674

Derivative-related credit risk

Derivative financial instruments traded in the over-the-counter market are subject to credit risk in that there is a risk of a financial loss occurring if a counterparty defaults on its contractual obligation. This credit risk is normally a small fraction of the notional amount of the derivative instrument. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position.

ATB endeavours to limit its credit risk by dealing only with counterparties believed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements with counterparties. To the extent any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

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Note 14 (continued)

Credit risk exposure on the derivative portfolio is comprised as follows:

	2006			2005
	Ineligible for hedge accounting	Eligible for hedge accounting	Total	Total
	($ thousands)			
Interest rate contracts				
Options	$ 1,196	$ 133	$ 1,329	$ 1,666
Swaps	-	7,485	7,485	1,512
	1,196	7,618	8,814	3,178
Foreign exchange contracts				
Forwards	4	-	4	76
Equity contracts				
Options	8,203	70,683	78,886	55,277
Total derivative exposure - gross	$ 9,403	$ 78,301	87,704	58,531
Less impact of master netting agreements			(4,285)	(388)
Residual credit exposure on derivatives			$ 83,419	$ 58,143

Term to maturity

The instruments in the derivative portfolio have varying maturity dates. The remaining contractual term to maturity for the notional amounts of all derivative instruments is as follows:

	2006					2005
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Total
	($ thousands)					
Interest rate contracts						
Options	$ -	$ -	$ 809,327	**$ -**	$ 809,327	$ 747,191
Swaps	500,000	1,200,000	400,000	**-**	2,100,000	1,300,000
Foreign exchange contracts						
Forwards	-	453	-	**-**	453	7,273
Equity contracts						
Options	15,600	106,110	197,620	**-**	319,330	337,210
Total	$515,600	$ 1,306,563	$ 1,406,947	**$ -**	$ 3,229,110	$ 2,391,674

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NOTE 15 COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Credit Instruments

In the normal course of business, ATB enters into various off-balance sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

Letters of Credit

Stand-by letters of credit represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or in the form of services) to another party based on (a) changes in an asset, liability or equity the other party holds, (b) failure of a third party to perform under an obligating agreement, or (c) failure of a third party to pay its indebtedness when due. Again, in the event of a call on such a commitment, ATB has recourse against the customer.

ATB has also issued a $5.0 million guarantee to the Canadian Depository for Securities ("CDS") in respect of one its subsidiaries to support the settlement of investment transactions with CDS.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down, and credit facilities available on a revolving basis. The contractual amounts of all such credit instruments as at March 31 are:

	2006	2005
	($ thousands)	
Guarantees	$ 99,945	$ 104,405
Letters of credit	44,687	28,303
Commitments to extend credit	5,314,506	4,342,729
	$ 5,459,138	$ 4,475,437

The amounts presented above for commitments to extend credit include un-drawn lines of credit.

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Note 15 (continued)

Pledged Assets

In the ordinary course of business, ATB pledges securities to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to CDS in order to participate in a settlement agent credit ring. The total amount of securities so pledged at March 31, 2006 and 2005 is provided in Note 5.

Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples of such agreements would include service agreements, leasing agreements, clearing arrangements and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the Consolidated Balance Sheet as at March 31, 2006 and 2005 in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The future minimum payments in respect of such obligations for each of the next five fiscal years and thereafter are:

2007	$ 56,585
2008	46,876
2009	38,661
2010	28,009
2011	27,743
2012 and thereafter	48,941
	$ 246,815

The total expense in respect of premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2006 is $19,953 (2005: $19,105; 2004: $16,807).

NOTE 16 DISCLOSURE OF SALARIES AND BENEFITS

ATB is an agent of the Crown in right of Alberta, and as such, is required to disclose the following information as per the Salary and Benefits Disclosure Directive, as amended July 6, 2004, made by the Treasury Board, pursuant to sections 5, 6 and 7 of the *Financial Administration Act*. This directive applies to all departments,

ALBERTA TREASURY BRANCHES

Note 16 (continued)

regulated funds, provincial agencies and Crown-controlled organizations. The amounts disclosed in the following table are the amounts earned in the years ended March 31.

	2006						2005
	Base salary	Variable pay Current (1)	Variable pay Deferred (2)	Other cash benefits	Other non-cash benefits	Total	Total
	($ thousands)						
Chairman of Board	$ 52	$ -	$ -	$ -	$ -	$ 52	$ 48
Board Members (3)	452	-	-	-	-	452	406
President and Chief Executive Officer	400	312	366	30	84	1,192	1,046
Chief Operating Officer	301	150	178	90	41	760	650
Executive Vice-President Marketing (4)	-	-	-	-	-	-	172
Executive Vice-President Credit	188	67	80	12	37	384	353
Executive Vice-President Treasurer	183	62	74	12	40	371	333
Chief Financial Officer	178	63	70	12	38	361	328
Vice-President Human Resources	166	59	70	12	30	337	305

Notes:

(1) Variable pay is accrued based on goal attainment for the fiscal year but is paid following the fiscal year-end.

(2) Deferred variable pay is reported as earned in the year though payment is deferred for up to 33 months and is dependent upon the employee's continued employment with ATB. The actual amount each employee will receive will appreciate or depreciate from the amount reported above based on a specified methodology to reflect ATB's actual financial performance over the next two fiscal years.

(3) The Board consists of 12 members plus the Chairman who is disclosed separately.

(4) This position was abolished effective October 22, 2004 and the amount presented does not include severance.

Base Salary consists of all regular pensionable base pay earned.

Other Cash Benefits consist of fees for attendance at meetings, retainers, honoraria, lump sum payments, perquisite allowances and any other direct cash remuneration.

Other Non-cash Benefits consist of ATB's share of all employee benefits and contributions or payments made on behalf of employees including statutory contributions, pension, health care, dental coverage, vision coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, tuition and professional memberships.

NOTE 17 RELATED PARTY TRANSACTIONS

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the government of the Province of Alberta on terms similar to those offered to non-related parties (also see Note 10).

ALBERTA TREASURY BRANCHES

Note 17 (continued)

ATB provides banking services to its directors on terms similar to those offered to non-related parties and to its officers and employees at preferential rates. The total outstanding balances of residential mortgages and loans to all of these parties as at March 31 are as follows:

	2006	2005
	($ thousands)	
Residential mortgage	$ 143,268	$ 133,229
Personal	59,941	52,846
Credit card	9,996	8,448
Business	6,498	5,672
	$ 219,703	$ 200,195

NOTE 18 ESTIMATED FAIR VALUE OF BALANCE SHEET FINANCIAL INSTRUMENTS

The following table presents management's best estimates of the fair value of its on-balance sheet financial instruments (including any fair value amounts related to derivative instruments which are ineligible for hedge accounting). The fair values are determined as at the balance sheet date using the valuation methods and assumptions described below. These values may change in subsequent reporting periods due to market conditions or other factors.

Estimated Fair Value

Estimated fair value represents the amount at which ATB would exchange a financial instrument in an arm's length transaction with a willing party under no compulsion to act. For those instruments with an available market price, fair value is established by reference to the last traded price prior to the balance sheet date. Many of ATB's financial instruments lack such an available trading market and the associated fair values presented represent management's best estimates of the current value of the instruments, taking into account changes in market rates (principally interest rates) or credit risk that have occurred since their origination.

Premises and equipment and accrued pension benefit assets and liabilities are not considered financial instruments and have been excluded from the estimates of fair value. The net carrying value of such amounts excluded as at March 31, 2006 is $132,225 (2005: $115,537).

Financial Instruments Whose Book Value Approximates Fair Value

For items that are short-term in nature, the estimated fair value is considered to be equal to their carrying value. These include cash resources and, except for amounts recognized in respect of derivative instruments, other assets and other liabilities.

Securities

The fair value of equity securities is determined by reference to quoted marked prices. The fair value of debt securities is considered approximately equal to their carrying value, as their remaining terms to maturity are short enough that their value is effectively immune to changes in the interest rate environment.

ALBERTA TREASURY BRANCHES

Note 18 (continued)

Loans and Deposits

For floating rate financial instruments, fair value is equal to carrying value as the interest rates automatically re-price to market. For fixed rate loans, fair value is determined by discounting the expected future cash flows at market rates. For fixed rate deposits, fair value is determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Subordinated Debentures

The fair value of subordinated debentures is determined by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and risk ratings.

Estimated Fair Value

The estimated fair value of balance sheet financial instruments (excluding any on-balance sheet derivative instruments) as at March 31 is as follows:

	2006			2005		
	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
			($ thousands)			
Assets						
Cash resources	$ 1,054,125	$ 1,054,125	$ -	$ 953,523	$ 953,523	$ -
Securities	$ 1,381,444	$ 1,380,802	$ (642)	$ 932,511	$ 932,511	$ -
Loans	$ 14,846,694	$ 14,982,572	$ 135,878	$ 13,137,917	$ 13,462,963	$ 325,046
Other	$ 230,423	$ 230,423	$ -	$ 239,240	$ 239,240	$ -
Liabilities						
Deposits	$ 15,870,308	$ 15,791,157	$ (79,151)	$ 13,840,032	$ 13,925,228	$ 85,196
Other	$ 354,029	$ 354,029	$ -	$ 322,703	$ 322,703	$ -
Subord. debent.	$ 71,579	$ 71,428	$ (151)	$ 65,719	$ 67,346	$ 1,627

NOTE 19 INTEREST RATE RISK

ATB is subject to interest rate risk in that it earns interest income on interest-bearing assets, pays interest expense on interest-bearing liabilities and has certain off-balance sheet derivative instruments with values that are interest rate-sensitive. To the extent either that these assets, liabilities and financial instruments mature or re-price at different times or that the financial instruments do not effectively address any interest rate mismatch between the assets and liabilities, ATB is exposed to interest rate risk.

Interest rate risk is the risk that ATB's net income will decrease because of an adverse movement in interest rates. The following table details the gap between on- and off-balance sheet interest sensitive assets and interest sensitive liabilities, based on the earlier of the re-pricing or maturity date of both.

The gap position presented in the following schedule is as of the close of the business on March 31, 2006. It represents the position of ATB as at that point in time only and may change significantly from day to day due to customer preferences and risk management policies.

ALBERTA TREASURY BRANCHES

Note 19 (continued)

	Term to maturity/repricing							
	Within 3 months	**3 - 6 months**	**6 - 12 months**	**Total within 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
				($ thousands)				
2006								
Assets								
Cash	$ 77,454	$ -	$ -	$ 77,454	$ -	$ -	$ -	$ 77,454
Effective interest rate	3.87%	-	-	3.87%	-	-	-	3.87%
Securities and interest-bearing deposits with financial institutions	2,236,712	62,326	58,077	2,357,115	1,000	-	-	2,358,115
Effective interest rate	3.83%	3.41%	3.88%	3.82%	5.11%	-	-	3.82%
Loans	8,945,620	360,142	716,689	10,022,451	4,851,968	60,249	(87,974)	14,846,694
Effective interest rate	6.06%	5.66%	5.05%	5.97%	5.50%	3.52%	-	5.84%
Other	-	-	-	-	-	-	365,552	365,552
	11,259,786	422,468	774,766	12,457,020	4,852,968	60,249	277,578	17,647,815
Liabilities and Equity								
Deposits	10,359,275	622,888	1,558,127	12,540,290	3,330,018	-	-	15,870,308
Effective interest rate	2.82%	2.98%	3.46%	2.91%	3.83%	-	-	3.10%
Other liabilities and equity	-	-	-	-	-	-	1,705,928	1,705,928
Subordinated debentures	-	-	-	-	-	-	71,579	71,579
Effective interest rate	-	-	-	-	-	-	4.79%	4.79%
	10,359,275	622,888	1,558,127	12,540,290	3,330,018	-	1,777,507	17,647,815
On-balance sheet gap	900,511	(200,420)	(783,361)	(83,270)	1,522,950	60,249	(1,499,929)	-
Derivatives used for asset/liability gap management (notional amounts)								
Pay side swaps	(1,700,000)	-	-	(1,700,000)	(400,000)	-	-	(2,100,000)
Effective interest rate	3.75%	-	-	3.75%	3.82%	-	-	-
Receive side swaps	900,000	550,000	650,000	2,100,000	-	-	-	2,100,000
Effective interest rate	3.30%	3.04%	3.87%	3.41%	-	-	-	-
Off-balance sheet gap	(800,000)	550,000	650,000	400,000	(400,000)	-	-	-
Net gap	$ 100,511	$ 349,580	$ (133,361)	$ 316,730	$ 1,122,950	$ 60,249	$ (1,499,929)	$ -
As % of assets	0.57%	1.98%	(0.76%)	1.79%	6.36%	0.34%	(8.50%)	-
2005								
Assets	9,484,952	374,244	685,459	10,544,655	4,520,016	34,793	281,768	15,381,232
Liabilities and equity	8,415,967	460,201	1,339,151	10,215,319	3,624,713	-	1,541,200	15,381,232
On-balance sheet gap	1,068,985	(85,957)	(653,692)	329,336	895,303	34,793	(1,259,432)	-
Off-balance sheet gap	(1,100,000)	400,000	700,000	-	-	-	-	-
Net gap	$ (31,015)	$ 314,043	$ 46,308	$ 329,336	$ 895,303	$ 34,793	$ (1,259,432)	$ -
As % of assets	(0.20%)	2.04%	0.30%	2.14%	5.82%	0.23%	(8.19%)	-

NOTE 20 SEGMENTED INFORMATION

ATB has organized its operations and activities around the following three business segments or lines of business:

- **Personal and Business Financial Services** that comprises the branch, agency and ABM networks and provides financial services to individuals, independent business and agricultural customers;
- **Corporate Financial Services** which provides financial services to medium- and large-size corporate borrowers; and
- **Investor Services** which provides wealth management solutions including retail brokerage, mutual funds, portfolio management and investment advice to ATB customers.

ALBERTA TREASURY BRANCHES

Note 20 (continued)

ATB's operating activities are not geographically distributed for external reporting purposes, as all its operations are essentially limited to customers within the province of Alberta.

Basis of presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in these groupings are consistent with those followed in the preparation of the consolidated financial statements as disclosed in the other notes to the consolidated financial statements. As these lines of business are based on ATB's internal management structure, they may not be comparable to those of other financial institutions.

	Personal and Business	Corporate	Investor Services	Other Business Units*	Total
			($ thousands)		
2006					
Net interest income	$ 360,061	$ 47,948	$ 3,152	$ 51,090	$ 462,251
Other income	109,364	12,342	18,296	15,619	155,621
Total operating revenues	469,425	60,290	21,448	66,709	617,872
Provision for (recovery of) credit losses	14,313	5,168	-	(18,793)	688
Non-interest expenses	336,882	16,601	30,797	34,183	418,463
Net income (loss)	$ 118,230	$ 38,521	$ (9,349)	$ 51,319	$ 198,721
Total assets	$ 12,312,888	$ 2,470,280	$ 1,590	$ 2,863,057	$ 17,647,815
Total liabilities	$ 12,742,483	$ 1,535,113	$ 229,939	$ 1,791,285	$ 16,298,820
2005					
Net interest income	$ 323,441	$ 40,395	$ -	$ 34,910	$ 398,746
Other income	105,973	10,913	10,337	12,085	139,308
Total operating revenues	429,414	51,308	10,337	46,995	538,054
Provision for (recovery of) credit losses	8,392	(215)	-	(22,771)	(14,594)
Non-interest expenses	300,954	13,703	22,301	28,377	365,335
Net income (loss)	$ 120,068	$ 37,820	$ (11,964)	$ 41,389	$ 187,313
Total assets	$ 11,249,427	$ 1,956,059	$ 35,672	$ 2,140,074	$ 15,381,232
Total liabilities	$ 12,783,402	$ 1,002,028	$ 123,782	$ 321,746	$ 14,230,958
2004					
Net interest income	$ 351,014	$ 34,232	$ -	$ 12,038	$ 397,284
Other income	97,136	6,615	3,970	8,551	116,272
Total operating revenues	448,150	40,847	3,970	20,589	513,556
Provision for (recovery of) credit losses	20,139	5,504	-	(9,784)	15,859
Non-interest expenses	283,004	7,189	12,084	23,396	325,673
Net income (loss)	$ 145,007	$ 28,154	$ (8,114)	$ 6,977	$ 172,024
Total assets	$ 10,759,963	$ 1,441,411	$ 27,859	$ 2,076,577	$ 14,305,810
Total liabilities	$ 12,137,403	$ -	$ 39,342	$ 1,166,104	$ 13,342,849

* Comprised of business units of a corporate nature such as investment, risk management, asset liability management and treasury operations, as well as expenses, general allowances and recoveries for credit losses not expressly attributed to any line of business.

ALBERTA TREASURY BRANCHES

Note 20 (continued)

Customer-related assets and liabilities (and the directly related revenues and expenses) are allocated between ATB's lines of business based on management of the client relationship rather than the specific nature of the loan, deposit or other product provided or service rendered.

Net interest income ("NII") is attributed to each line of business according to ATB's internal funds transfer pricing ("FTP") system whereby assets "earn" NII to the extent external revenues exceed internal FTP expense and liabilities earn NII to the extent internal FTP revenues exceed external interest expense. Specific provisions for credit losses are allocated based on the individual underlying impaired loan balances and general provisions (excepting any special general provisions) are allocated pro-rata based on total performing loan balances.

Direct expenses are attributed between lines as incurred. Certain indirect expenses are allocated between Investor Services and the other lines on the basis of inter-line service agreements. Certain other costs are allocated between the reporting segments using refined methods of allocating certain costs between the reporting segments, incorporating activity-based estimates of indirect cost allocation. These refined methods were adopted prospectively at the beginning of the 2004-05 fiscal year. Indirect expenses not allocated and direct expenses of a corporate or support nature are reported under the "Other Business Units" segment.

NOTE 21 FUTURE CHANGES IN ACCOUNTING POLICIES

No accounting policy changes have been identified that are expected to impact ATB for the fiscal year ending March 31, 2007. The following changes are expected to impact reporting for the year ending March 31, 2008:

Financial Instruments, Hedges and Comprehensive Income

In January 2005, the CICA issued three new accounting standards: "Financial Instruments - Recognition and Measurement", "Hedges" and "Comprehensive Income". These new requirements will apply to ATB on April 1, 2007 and will be adopted prospectively as of that date. The principal impact of implementing these standards will be as follows:

- A new component of Equity will be created called "Other comprehensive income" and ATB's Consolidated Financial Statements will be expanded to include a new "Statement of Comprehensive Income".
- Financial assets will be classified as either held for trading, held to maturity, available for sale or loans and receivables. Financial liabilities will be classified as either held for trading or not held for trading.
- Items classified as held for trading will be carried on the Balance Sheet at fair value with gains and losses recognized in net income in the current period. Items classified as available for sale will be carried at fair value with gains and losses recognized in other comprehensive income until realized through disposal or impairment. Assets classified as held to maturity or loans and receivables and liabilities not classified as held for trading will be carried at amortized cost.
- The definition of derivatives for accounting purposes will be expanded to include certain embedded derivatives. New requirements will be established to define hedging relationships.
- For fair value hedges, where ATB hedges its exposure to changes in the fair value of assets, liabilities or certain commitments, changes in the fair value of the derivative and corresponding changes in the fair value of the hedged items will be recognized in net income in the current period.

ALBERTA TREASURY BRANCHES

Note 21 (continued)

- For cash flow hedges, where ATB hedges its exposure to variability in cash flows related to variable rate assets, liabilities or forecast transactions, the effective portion of the changes in the fair value of the derivative will be recognized in other comprehensive income until the hedged items are recognized in net income.

As these standards will be implemented prospectively, any impact of re-measuring financial instruments at fair value on April 1, 2007 will be recognized in opening retained earnings as at that date and results for prior periods will not be restated. The ultimate impact of adopting these new accounting policies cannot presently be determined, as it will depend on ATB's portfolio of financial instruments and their fair value at that future date.

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

MARCH 31, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Directors of ATB Investment Management Inc.

I have audited the balance sheet of ATB Investment Management Inc. as at March 31,2006 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 26, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ATB INVESTMENT MANAGEMENT INC.

BALANCE SHEET

As At March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash	$ 2,235,623	$ 1,950,727
Accounts receivable	1,778,066	958,562
Prepaid expenses	18,084	10,733
	4,031,773	2,920,022
Capital assets (Note 3)	284,367	-
Deferred charges	11,645	29,058
	$ 4,327,785	$ 2,949,080
LIABILITIES		
Current liabilities		
Due to ATB (Note 4)	$ 649,023	$ 474,315
Due to affiliates (Note 5)	693,246	467,536
Accrued liabilities	1,060,149	593,972
	2,402,418	1,535,823
Subordinated notes (Note 6)	-	2,245,000
	2,402,418	3,780,823
Commitments (Note 7)		
Shareholder's Equity		
Share capital (Note 8)	5,000	5,000
Retained earnings (deficit)	1,920,367	(836,743)
	1,925,367	(831,743)
	$ 4,327,785	$ 2,949,080

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

Approved by the Board of Directors:

B. Normand
Chairman of the Board and Chief Executive Officer

M. Frederick
Chief Financial Officer

ATB INVESTMENT MANAGEMENT INC.

STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006	2005
Revenue		
Investment management fees	$ 12,104,253	$ 5,717,870
Other revenue	686,092	121,279
Interest revenue (Note 9)	57,672	29,623
	12,848,017	5,868,772
Administration and selling expenses (Note 9)		
Trailing commission	5,219,442	2,459,790
Professional fees	2,904,357	1,641,914
Salaries and employee benefits	1,189,085	709,712
Other expenses	696,196	465,573
Interest expense	81,827	96,660
Expense absorption (Note 2(f))	-	182,625
	10,090,907	5,556,274
Net earnings for the year	$ 2,757,110	$ 312,498

STATEMENT OF RETAINED EARNINGS

For the Year Ended March 31, 2006

	2006	2005
Balance - Beginning of year	$ (836,743)	$ (1,149,241)
Net earnings for the year	2,757,110	312,498
Balance - End of year	$ 1,920,367	$ (836,743)

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

ATB INVESTMENT MANAGEMENT INC.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
Cash provided for (used in)		
Operating activities		
Net earnings for the year	$ 2,757,110	$ 312,498
Items not affecting cash		
Amortization of deferred charges	17,413	17,414
	2,774,523	329,912
Net change in non-cash working capital items		
Increase in accounts receivable	(819,504)	(600,631)
Increase in prepaid expenses	(7,351)	(2,170)
Increase in accrued liabilities	466,177	375,125
Increase in due to affiliates	225,710	467,536
	2,639,555	569,772
Investing activities		
Purchase of capital assets	(284,367)	-
Financing activities		
Increase in due to ATB	174,708	193,401
Repayment of subordinated notes	(2,245,000)	-
	(2,070,292)	193,401
Increase in cash	284,896	763,173
Cash - Beginning of year	1,950,727	1,187,554
Cash - End of year	$ 2,235,623	$ 1,950,727
Supplementary information		
Interest paid	$ 87,832	$ 95,613
Interest received	$ 57,672	$ 29,623

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

ATB INVESTMENT MANAGEMENT INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Management Inc. ("ATBIM") is a wholly owned subsidiary of Alberta Treasury Branches ("ATB") established for the purpose of managing a family of ATB mutual fund portfolios and other provisions of discretionary portfolio management services. The continuing operations of ATBIM are dependent upon ATB's ongoing financial support. ATBIM was incorporated in Alberta under the *Business Corporations Act* (Alberta) on August 21,2002. As a provincial corporation ATBIM is exempt from income tax. ATBIM is registered with the Alberta Securities Commission ("ASC").

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. Comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below:

a) Measurement uncertainty

In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates.

b) Revenue recognition

Investment management fees are based on net asset values of the ATB mutual fund portfolios and are recognized on an accrual basis. Interest revenue includes interest earned on cash deposits with ATB and is recorded on an accrual basis. Other revenue includes fees earned from clients for management of their accounts.

c) Cash

Cash consists of cash on deposit with ATB.

d) Capital assets

Capital assets are carried at cost less accumulated amortization. System development is amortized on a straight-line basis over the estimated useful life of between 3 and 5 years. Amortization commences in the year the system development is completed.

e) Deferred charges

Deferred charges represent the unamortized cost of the implementation fees for setting up the registrar and the transfer agent for the mutual fund portfolios. Amortization is calculated on a straight-line basis, over the four-year term of the related contract. The amortization expense is charged to the mutual fund portfolios over the same contract term, as set out in the management agreement.

ATB INVESTMENT MANAGEMENT INC.

Note 2 (continued)

f) Expense absorption

In its sole discretion, ATBIM may waive or absorb expenses of the ATB Compass Portfolio mutual funds. The effect of such waivers and absorption is to recognize expenses of $nil (2005 - $182,625) that are otherwise attributable to the funds. It is expected that such waivers and absorption will decline as the net assets of the funds grow over time.

NOTE 3 CAPITAL ASSETS

	2006	2005
System development cost	$ 284,367	$ -
Less: Accumulated amortization	-	-
	$ 284,367	$ -

NOTE 4 DUE TO ATB

In the normal course of operations, ATB pays certain expenses on behalf of ATBIM. These amounts are recorded, as payable and receivable in the respective accounts of both ATB and ATBJM. The amounts due to and due from ATB are generally settled in the following month. The amounts due to ATB as at March 31 are as follows:

	2006	2005
Due to ATB	$ 649,023	$ 474,315

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31,2006 was 5.50% (2005 - 4.25%).

ATB INVESTMENT MANAGEMENT INC.

NOTE 5 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBIM pays trailing commissions to ATB Investment Services Inc. ("ATBIS") and ATB Securities Inc. ("ATBS"). ATBIS collects client fees on behalf of ATBIM. ATBIS and ATBS pay certain expenses on behalf of ATBIM. These amounts are duly recorded as payable and receivable in the respective accounts of each of ATBIM, ATBIS and ATBS. The amounts due (to) from ATBIS and ATBS are generally settled in the following month and are not subject to interest charges. The amounts due (to) from affiliates as at March 31 are as follows:

	2006	2005
Due to ATBIS	$ 299,987	$ 140,824
Due to ATBS	393,259	326,712
	$ 693,246	$ 467,536

NOTE 6 SUBORDINATED NOTES

The subordinated notes held by ATB were unsecured and bore interest at the prime lending rate of ATB. The subordinated notes had no specified maturity dates and were repayable upon demand by ATB, subject to the prior approval of the Alberta Securities Commission. Since ATB did not have the unilateral right to demand repayment, the subordinated notes were classified as a non-current liability.

The subordinated notes were repaid in full by January 19,2006.

NOTE 7 COMMITMENTS

ATBIM is committed to payments under service agreements for data processing services through January 1, 2008 in the amount of approximately $152,000. Annual payments are:

2007	$ 92,000
2008	60,000

ATB INVESTMENT MANAGEMENT INC.

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value.

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding

	2006	2005
100 Class A shares	$ 5,000	$ 5,000

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATB charges ATBIM for certain administrative and selling services as well as charging interest on subordinated notes and amounts owing to ATB. In addition, ATB Securities Inc. (an affiliate) charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATB Securities Inc. and ATB Investment Services Inc. (an affiliate) charge trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM. The summary of these transactions is as follows:

Related Party	Transactions	Recorded as	2006	2005
Revenue				
ATB	Interest income	Interest revenue	$ 57,672	$ 29,623
Administration and selling expenses				
ATB Investment Services Inc.	Trailer fees	Trailing commission	$ 2,176,688	$ 1,135,445
ATB Securities Inc.	Trailer fees	Trailing commission	3,042,754	1,324,345
ATB	Administrative services	Professional fees	52,782	116,242
ATB	Information technology, rent and marketing	Other expenses	327,458	130,715
ATB Securities Inc.	Client referral fees	Professional fees	299,177	102,229
ATB Securities Inc.	Transaction fees	Other expenses	176,580	42,510
ATB Securities Inc.	Salaries	Salaries and employee benefits	-	44,700
			$ 6,075,439	$ 2,896,186

ATB INVESTMENT MANAGEMENT INC.

Note 9 (continued)

Related Party	Transactions	Recorded as	2006	2005
Salaries and employee benefits				
ATB	Salaries (recoveries)	Salaries and employee benefits	$ -	$ (58,919)
ATB Investment Services Inc.	Salaries (recoveries)	Salaries and employee benefits	-	(8,417)
ATB Securities Inc.	Salaries (recoveries)	Salaries and employee benefits	-	(8,417)
			$ -	$ (75,753)
Interest expense				
ATB	Interest expense on subordinated notes	Interest expense	$ 57,930	$ 90,034
ATB	Interest expense on due to ATB	Interest expense	23,897	6,626
			$ 81,827	$ 96,660

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash, accounts receivable, accrued liabilities, amounts due to ATB and due to affiliates approximates the carrying value due to the short-term nature of these instruments.

ATB INVESTMENT SERVICES INC.

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Board of Directors of ATB Investment Services Inc.

I have audited the balance sheet of ATB Investment Services Inc. as at March 31, 2006, and the statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of ATB Investment Services Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of ATB Investment Services Inc. as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 26, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ATB INVESTMENT SERVICES INC.

BALANCE SHEET

As At March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash	$ 4,884,037	$ 6,981,568
Clients' cash held in trust	4,331,231	3,908,937
Due from affiliates (Note 3)	450,923	140,824
Due from clients	8,104	277,778
Trailer fees receivable	81,660	72,485
Prepaid expenses	92,128	89,683
	9,848,083	11,471,275
Capital assets (Note 4)	465,428	-
	$ 10,313,511	$ 11,471,275
LIABILITIES		
Current liabilities		
Due to clients	$ 2,445,595	$ 2,247,952
Due to brokers and dealers	1,773,074	1,878,251
Due to ATB (Note 5)	440,362	751,164
Variable compensation payable	852,645	702,562
Accrued liabilities	303,817	107,621
Unearned revenue	176,685	89,437
	5,992,178	5,776,987
Subordinated notes (Note 6)	27,999,000	21,499,000
	33,991,178	27,275,987
Commitments (Note 7)		
Shareholder's Deficiency		
Share capital (Note 8)	1,000	1,000
Deficit	(23,678,667)	(15,805,712)
	(23,677,667)	(15,804,712)
	$ 10,313,511	$ 11,471,275

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

Approved by the Board of Directors:

B. Normand
Chairman of the Board and Chief Executive Officer

M. Frederick
Chief Financial Officer

ATB INVESTMENT SERVICES INC.

STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006	2005
Revenue (Note 9)		
Commission	$ 2,953,749	$ 1,984,208
Deposit instruments	1,181,705	515,478
Client fees	216,747	103,483
Interest	150,798	101,910
Other	28,607	9,418
	4,531,606	2,714,497
Administration and selling expenses (Note 9)		
Salaries and employee benefits	5,071,886	3,393,232
Processing, selling and premises rental	2,732,891	2,713,000
Other	1,805,640	1,268,739
Interest on subordinated debt	1,115,007	642,146
Variable compensation	1,114,710	1,021,764
Professional and training	518,012	606,880
Other interest	46,415	20,643
	12,404,561	9,666,404
Net loss for the year	$ (7,872,955)	$ (6,951,907)

STATEMENT OF DEFICIT

For the Year Ended March 31, 2006

	2006	2005
Balance - Beginning of year	$ 15,805,712	$ 8,853,805
Net loss for the year	7,872,955	6,951,907
Balance - End of year	$ 23,678,667	$ 15,805,712

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

ATB INVESTMENT SERVICES INC.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
Cash provided for (used in)		
Net loss for the year	$ (7,872,955)	$ (6,951,907)
Net change in non-cash working capital items		
Increase in due from affiliates	(310,099)	(140,824)
Increase in trailer fees receivable	(9,175)	(862)
Increase in prepaid expenses	(2,445)	(5,620)
Increase in variable compensation payable	150,083	611,195
Increase in accrued liabilities	196,196	84,662
Increase in unearned revenue	87,248	89,437
Decrease in client cash	(60,154)	(60,512)
	(7,821,301)	(6,374,431)
Investing activities		
Purchase of capital assets	(465,428)	-
Financing activities		
(Decrease) increase in due to ATB	(310,802)	301,771
Issue of subordinated notes	6,500,000	8,750,000
	6,189,198	9,051,771
(Decrease) increase in cash	(2,097,531)	2,677,340
Cash - Beginning of year	6,981,568	4,304,228
Cash, End of year	$ 4,884,037	$ 6,981,568
Supplementary information		
Interest paid	$ 1,092,510	$ 626,097
Interest received	$ 150,798	$ 101,910

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

ATB INVESTMENT SERVICES INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Services Inc. ("ATBIS") is a wholly owned subsidiary of Alberta Treasury Branches ("ATB") established for the purpose of distributing mutual funds to customers of ATB. The continuing operations of ATBIS are dependent upon ATB's ongoing financial support. ATBIS was incorporated under the *Business Corporations Act* (Alberta) on October 3, 1997. As a provincial corporation, ATBIS is exempt fiom income tax. ATBIS is a member of the Mutual Fund Dealers Association of Canada ("MFDA") and is registered with the Alberta Securities Commission ("ASC").

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates. Certain comparative amounts have been reclassified where necessary to conform to the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below.

a) Revenue recognition

ATBIS earns revenue from third party clients and affiliates (note 9) for providing services as a distributor of mutual funds and other investment products. Commission revenue includes revenue earned on mutual fund sales that is recognized on a trade-date basis and trailer fee revenue that is recognized on an accrual basis as these fees are earned.

Deposit instruments revenue includes Guaranteed Investment Certificate ("GIC") referral revenue, which is paid by ATB to ATBIS based on the imputed profit earned on the GIC's. Client fees include Registered Retirement Savings Plan ("RRSP") administration fees, as well as fees to transfer and deregister client accounts. Interest income includes interest earned from cash operating accounts. Other revenue includes miscellaneous ancillary fees earned from third parties. Deposits instruments revenue, client fees, interest income, and other revenue are all recognized on an accrual basis.

Unearned revenue relates to RRSP administration fees on client accounts that are amortized into income over the calendar year.

b) Cash

Cash consists of cash on deposit with ATB.

c) Clients' cash held in trust

Clients' cash held in trust represents amounts in trust accounts with ATB for the settlement of mutual fund transactions. The corresponding liabilities are included in due to clients, brokers and dealers. Client balances are reported on a trade-date basis.

ATB INVESTMENT SERVICES INC.

Note 2 (continued)

d) Capital assets

Capital assets are carried at cost less accumulated amortization. System development is amortized on a straight-line basis over the estimated useful life of between three and five years. Amortization commences in the year the system development is completed.

e) Due to clients and due to brokers and dealers

Due to clients represents cash balances in client accounts. These amounts are due on demand.

Due to brokers and dealers represents amounts related to trades that have initiated but not settled.

NOTE 3 DUE FROM AFFILIATES

In the normal course of operations, ATBIS received trailing commissions from ATB Investment Management ("ATBIM") and pays certain expenses on behalf of ATBIM and ATB Securities Inc. ("ATBS"). These amounts are duly recorded as receivables and payables in the respective accounts of ATBIS, ATBIM and ATBS. The amounts due from affiliates are generally settled in the following month are not subject to interest charges. The amounts due from affiliates as at March 31 are as follows:

	2006	2005
Due from ATBIM	$ 299,987	$ 140,824
Due from ATBS	150,936	-
	$ 450,923	$ 140,824

NOTE 4 CAPITAL ASSETS

	2006	2005
System development costs	$ 465,428	$ -
Less: Accumulated amortization	-	-
	$ 465,428	$ -

ATB INVESTMENT SERVICES INC.

NOTE 5 DUE TO ATB

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBIS. These amounts are duly recorded as payable and receivables in the respective accounts of both ATB and ATBIS. The amounts due to (from) ATB are generally settled in the following month. The amounts due to (from) ATB as at March 31 are as follows:

	2006	2005
Due to ATB	$ 1,460,316	$ 1,084,116
Due from ATB	(1,019,954)	(332,952)
	$ 440,362	$ 751,164

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime-lending rate at March 31,2006 was 5.50% (2005 - 4.25%).

NOTE 6 SUBORDINATED NOTES

The subordinated notes held by ATB are unsecured and bear interest at the prime lending rate of ATB. The subordinated notes have no specified maturity dates, and are repayable upon demand by ATB, subject to the prior approvals of the ASC and the MFDA. Since ATB does not have the unilateral right to demand repayment, the subordinated notes have been classified as a non-current liability (see note 11). The amounts outstanding at March 31 are as follows:

	2006	2005
Balance - Beginning of year	$ 21,499,000	$ 12,749,000
Issuances	6,500,000	8,750,000
Balance - End of year	$ 27,999,000	$ 21,499,000

NOTE 7 COMMITMENTS

ATBIS is committed to payments under service agreements for data processing services through November 2007 in the amount of approximately $659,000. Annual payments for the next two fiscal years are:

2007	$ 393,000
2008	266,000

ATB INVESTMENT SERVICES INC.

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued

	2006	2005
100 Class A voting, common shares	$ 1,000	$ 1,000

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBIS earns revenue in the form of trailer fees and interest and other income from their parent company ("ATB") and ATB Investment Management Inc. ("ATBIM"), another wholly owned subsidiary of ATB. ATB also charges ATBIS for administrative and selling services, as well as charging interest on subordinated notes and amounts owing to ATB. ATBIS recovers from ATB certain administrative, processing and selling costs.

ATB INVESTMENT SERVICES INC.

Note 9 (continued)

The summary of these transactions for the years ended March 31 is as follows:

Related party	Transactions	Recorded as	2006	2005
Revenue				
ATBIM	Trailer fees	Commission revenue	$ 2,176,688	$ 1,135,445
ATB	Referral fees	Interest	150,798	101,910
ATB	Transaction fees	Deposit Instruments	1,181,705	515,478
			$ 3,509,191	$ 1,752,833
Administration and and selling expenses				
ATB	Processing	Processing, selling and premises rental	$ 2,494,318	$ 2,260,361
ATB	Selling	Processing, selling and premises rental	310,919	364,488
ATB	Premises and equipment rental	Processing, selling and premises rental	361,632	394,594
ATB	Adminstrative Services	Professional and training	244,240	228,186
ATB	Information Technology and Marketing	Other expenses	1,000,005	894,688
ATB	Salaries	Salaries and employee benefits	-	14,900
ATBIM	Salaries	Salaries and employee benefits	-	8,417
			$ 4,411,114	$ 4,165,634
ATB	Salaries (recoveries)	Salaries and employee benefits	$ (214,576)	$ (212,931)
ATB	Processing (recoveries)	Processing, selling and premises rental	(433,978)	(306,441)
ATB	Training (recoveries)	Professional and training	(39,623)	(21,869)
ATB	Compliance (recoveries)	Administration and selling expenses	(451,811)	(441,753)
ATBIM	Compass services fee recovery	Professional and training	(9,800)	(9,600)
			$ (1,149,788)	$ (992,594)
Interest expense				
ATB	Interest expense on subordinated notes	Interest expense	$ 1,115,007	$ 642,146
ATB	Other interest expense	Interest expense	46,415	20,643
			$ 1,161,422	$ 662,789

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

ATB INVESTMENT SERVICES INC.

NOTE 10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash, clients' cash held in trust, due from affiliates, due from clients, trailer fees receivable, due to brokers and dealers, variable compensation payable, amounts due to ATB and accrued liabilities approximates the canying value due to the short-term nature of these instruments. The fair value of subordinated notes is not readily determinable as there are no fixed terms of repayment.

NOTE 11 SUBSEQUENT EVENTS

Subsequent to March 31, 2006, the parent company, ATB, converted all of its subordinated loans totalling $27,999,000 to Class A Voting Common Shares at $1.00 per share.

ATB SECURITIES INC.

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Board of Directors of ATB Securities Inc.

I have audited the balance sheet of ATB Securities Inc. as at March 31, 2006, and the statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of ATB Securities Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perfom an audit to obtain reasonable assurance whether the financial statements are fiee of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of ATB Securities Inc. as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 12, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ATB SECURITIES INC.

BALANCE SHEET
As At March 31, 2006

	2006	2005
Assets		
Current assets		
Cash	$ 11,941,463	$ 13,744,332
Clients' cash held in trust	7,648,092	7,038,150
Due from affiliates (Note 3)	393,259	326,712
Due from clients	1,508,823	256,852
Client fees receivable	546,900	143,814
Trailer fees receivable	265,564	170,770
Prepaid expenses	32,927	38,270
Due from brokers and dealers	641,722	1,264,940
	22,978,750	22,983,840
Capital assets (Note 4)	462,871	-
	$ 23,441,621	$ 22,983,840
Liabilities		
Current liabilities		
Due to clients	$ 10,993,095	$ 12,698,978
Due to brokers and dealers	4,547,974	2,141,675
Due to ATB (Note 5)	899,201	1,180,179
Due to affiliates (Note 3)	150,936	-
Accrued liabilities	1,515,344	808,179
Unearned revenue	34,423	21,429
	18,140,973	16,850,440
Subordinated notes (Note 6)	17,495,000	13,995,000
	35,635,973	30,845,440
Commitments (Note 7)		
Shareholder's Deficiency		
Share capital (Note 8)	5,000	5,000
Deficit	(12,199,352)	(7,866,600)
	(12,194,352)	(7,861,600)
	$ 23,441,621	$ 22,983,840

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

Approved by the Board of Directors:

B. Normand
Chairman of the Board

M. Frederick
Chief Financial Officer

M. Mezei
Chief Executive Officer

ATB SECURITIES INC.

STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006	2005
Revenue (Note 9)		
Mutual fund commissions	$ 5,402,883	$ 2,504,049
Securities commissions	1,800,787	923,695
Client fees	1,473,912	389,505
Interest revenue	553,295	393,089
Client referral fees	475,757	144,739
Other revenue	56,170	3,490
	9,762,804	4,358,567
Administration and selling expenses (Note 9)		
Variable compensation expense	5,125,357	2,831,152
Salaries and employee benefits	3,657,825	2,861,703
Other expenses	1,972,109	1,561,181
Processing fees	1,928,652	1,135,003
Interest on subordinated debt	718,537	426,395
Professional fees	653,569	595,893
Other interest expense	39,507	17,023
	14,095,556	9,428,350
Net loss for the year	$ (4,332,752)	$ (5,069,783)

STATEMENT OF DEFICIT

For the Year Ended March 31, 2006

	2006	2005
Balance - Beginning of year	$ (7,866,600)	$ (2,796,817)
Net loss for the year	(4,332,752)	(5,069,783)
Balance - End of year	$ (12,199,352)	$ (7,866,600)

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

ATB SECURITIES INC.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
Cash provided for (used in)		
Operating activities		
Net loss for the year	$ (4,332,752)	$ (5,069,783)
Net change in non-cash working capital items		
Increase (decrease) in due to/from affiliates	84,389	(326,712)
Increase in client fees receivable	(403,086)	(131,583)
Increase in trailer fees receivable	(94,794)	(113,730)
Decrease (increase) in prepaid expenses	5,343	(3,698)
Increase in accrued liabilities	707,165	636,585
Increase in unearned revenue	12,994	21,429
Cash (paid to) received from clients	(538,279)	1,219,835
	(4,559,020)	(3,767,657)
Investing activities		
Purchase of capital assets	(462,871)	-
Financing activities		
(Decrease) increase in due to ATB	(280,978)	831,153
Issue of subordinated notes	3,500,000	7,000,000
	3,219,022	7,831,153
(Decrease) increase in cash	(1,802,869)	4,063,496
Cash - Beginning of year	13,744,332	9,680,836
Cash - End of year	$ 11,941,463	$ 13,744,332
Supplementary information		
Interest paid	$ 721,715	$ 414,697
Interest received	$ 553,295	$ 393,089

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

ATB SECURITIES INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 INCORPORATION AND OPERATIONS

ATB Securities Inc. ("ATBS") is a wholly owned subsidiary of Alberta Treasury Branches ("ATB") established to facilitate client trading of securities. The continuing operations of ATBS are dependent upon ATB's ongoing financial support. ATBS was incorporated in Alberta under the *Business Corporations Act* (Alberta) on February 6,2003. ATBS commenced operations on July 26,2003. As a provincial corporation, ATBS is exempt from income tax. ATBS is a member of the Investment Dealers Association of Canada ("IDA") and the Canadian Investors Protection Fund ("CIPF").

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. Comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below:

a) Measurement uncertainty

In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates.

b) Revenue recognition

ATBS earns its revenue from third party clients and affiliates (note 9). Commission revenue earned on mutual fund sales and securities transactions is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Other revenue is recorded on an accrual basis and includes client fees, Registered Retirement Savings Plan ("RRSP") administration fees, Guaranteed Investment Certificate ("GIC") referral revenue, interest income, client referral fee income, and client transaction fee income. GIC referral fees are paid by ATB to ATBS based on the imputed profit earned on the GIC's. Client referral fees are paid by ATB Investment Management Inc. ("ATBIM"), an affiliate, to ATBS based on actual commissions paid to ATBS sales staff. Transaction fees are paid by ATBIM to ATBS based on fair market costs of client trade processing.

Unearned revenue relates to RRSP administration fees on client accounts that are amortized into income over the calendar year.

c) Cash

Cash consists of cash on deposit with ATB.

ATB SECURITIES INC.

Note 2 (continued)

d) Client cash held in trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans and Registered Retirement Income Funds segregated in trust accounts with Canadian Western Trust. Corresponding liabilities are included in Due to clients. Client balances are reported on a trade date basis.

e) Capital assets

Capital assets are carried at cost less accumulated amortization. System development is amortized on a straight-line basis over the estimated useful life of between 3 and 5 years. Amortization commences in the year the system development is completed.

f) Due to clients and Due to brokers and dealers

Due to clients represents cash balances in client accounts. These amounts are due on demand.

Due to brokers and dealers represents amounts related to trades which have initiated but not been settled.

NOTE 3 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBS receives trailing commissions from ATBIM and collects client management fees on behalf of ATBIM. ATB Investment Services Inc. ("ATBIS") pays certain expenses on behalf of ATBS. These amounts are duly recorded, as payables and receivables, in each of ATBS's, ATBIM's and ATBIS's accounts. The amounts due (to)/from affiliates are generally settled in the following month and are not subject to interest charges. The amounts due (to) from affiliates as at March 31 are as follows:

	2006	2005
Due from ATBIM	$ 393,259	$ 326,712
Due to ATBIS	(150,936)	-
	$ 242,323	$ 326,712

NOTE 4 CAPITAL ASSETS

	2006	2005
System development costs	$ 462,871	$ -
Less: Accumulated amortization	-	-
	$ 462,871	$ -

ATB SECURITIES INC.

NOTE 5 DUE TO ATB

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBS. These amounts are duly recorded, as payable and receivables, in both ATB's and ATBS' accounts. The amounts due to and due from ATB are generally settled in the following month. The amounts due to and due from ATB as at March 31 are as follows:

	2006	2005
Due to ATB	$ 899,201	$ 1,180,179

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2006 was 5.50% (2005 - 4.25%).

NOTE 6 SUBORDINATED NOTES

The subordinated notes held by ATB are unsecured and bear interest at the prime lending rate of ATB. The subordinated notes have no specified maturity dates, and are repayable upon demand by ATB, subject to the prior approvals of the IDA. Since ATB does not have the unilateral right to demand repayment, the subordinated notes have been classified as a non-current liability (see note 11).

	2006	2005
Balance - Beginning of year	$ 13,995,000	$ 6,995,000
Issuances	3,500,000	7,000,000
Balance - End of year	$ 17,495,000	$ 13,995,000

NOTE 7 COMMITMENTS

ATBS is committed to payments under service agreements for data processing services through November 2007 in the amount of approximately $130,000. Annual payments are:

2007	$ 78,000
2008	52,000

ATB SECURITIES INC.

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value.

Unlimited number of Class B non-voting, common shares without nominal or par value.

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding

	2006	2005
100 Class A shares	$ 5,000	$ 5,000

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBS earns income in the form of trailer fees, and interest and other income from their parent company (ATB) and its other affiliates (ATBIM and ATB Investment Services Inc. (ATBIS)). ATB also charges ATBS for various administrative and selling services, as well as charging interest on subordinated notes and amounts owing to ATB. The summary of these transactions is as follows:

Related party	Transactions	Recorded as	2006	2005
Revenue				
ATB Investment Management Inc.	Trailer fees	Commission revenue	$ 3,042,754	$ 1,324,354
ATB Investment Management Inc.	Referral fees	Client referral fees	299,177	102,229
ATB Investment Management Inc.	Transaction fees	Client referral fees	176,580	42,510
ATB	GIC referral fees	Securities commissions	1,208,101	321,768
ATB	Interest income	Interest revenue	444,562	315,158
			$ 5,171,174	$ 2,106,019

ATB SECURITIES INC.

Note 9 (continued)

Related party	Transactions	Recorded as	2006	2005
Administration and and selling expenses				
ATB	Processing	Processing fees	$ 1,928,652	$ 1,134,823
ATB	Information technology, rent and marketing	Other expenses	907,369	706,633
ATB	Employee services	Professional fees	212,884	127,194
ATBIM	Salaries	Salaries and employee benefits	-	8,417
			$ 3,048,905	$ 1,977,067
ATBIM	Compass services fee (recovery)	Professional fees	$ (8,400)	$ (10,000)
ATBIS	Salaries (recoveries)	Salaries and employee benefits	-	(14,900)
ATBIM	Salaries (recoveries)	Salaries and employee benefits	-	(44,700)
			$ (8,400)	$ (69,600)
Interest expense				
ATB	Interest expense on subordinated notes	Interest expense	$ 718,537	$ 426,395
ATB	Other interest expense	Interest expense	39,507	14,859
			$ 758,044	$ 441,254

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash, due from (to) affiliates, client fees receivable, trailer fees receivable, due to brokers and dealers, amounts due to ATB and accrued liabilities approximates the carrying value due to the short-term nature of these instruments. The fair value of subordinated notes is not readily determinable as there are no fixed terms of repayment.

NOTE 11 SUBSEQUENT EVENTS

Subsequent to March 31,2006, the parent, ATB converted all of its subordinated loans totalling $17,495,000 to Class A voting, common shares at $1.00 per share for 17,495,000 shares.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

DECEMBER 31, 2005

AUDITOR'S REPORT

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 2005 and the statements of income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 7, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

BALANCE SHEET

As at December 31, 2005

	2005	2004
	($ thousands)	
ASSETS		
Cash	$ 11,573	$ 10,390
Investments (Note 3)	104,355	96,774
Accrued interest receivable	846	859
Income taxes receivable	-	228
Due from Credit Unions	2,912	2,735
Other assets (Note 4)	803	862
Property and equipment (Note 5)	223	124
	120,712	111,972
LIABILITIES		
Accounts payable and accrued liabilities	932	797
Income taxes payable	55	-
Accrual for financial assistance (Note 6)	1,600	1,325
Deferred revenue	1,156	1,102
Special contribution payable (Note 7)	11,032	9,972
Long-term unclaimed credit union balances payable	599	483
	15,374	13,679
Commitments and contingencies (Note 8)		
EQUITY		
Deposit Guarantee Fund	103,725	96,601
Master Bond Fund	1,613	1,692
	105,338	98,293
	$ 120,712	$ 111,972

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

Approved by the Board:

Allister McPherson, Director

Mary C. Ritchie, Director

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

STATEMENTS OF INCOME AND EQUITY

For the Year Ended December 31, 2005

	2005		2004
	Budget	Actual	Actual
	(Note 11)		
		($ thousands)	
DEPOSIT GUARANTEE FUND			
Revenues:			
Deposit guarantee assessments	$ 15,956	$ 16,367	$ 14,818
Investment income	4,763	6,267	5,530
	20,719	22,634	20,348
Expenses:			
Provision for financial assistance (Note 6)	500	266	58
Special contribution (Note 7)	10,642	11,032	9,972
Administration expenses (Schedule 1)	4,443	3,800	3,657
	15,585	15,098	13,687
Income before income taxes	5,134	7,536	6,661
Income taxes (Note 9)	40	412	313
Net income for the year	5,094	7,124	6,348
Equity at beginning of year	95,769	96,601	90,253
Equity at end of year	$ 100,863	$ 103,725	$ 96,601
MASTER BOND FUND			
Revenues:			
Insurance assessments	$ 1,209	$ 1,195	$ 1,123
Investment income	38	57	53
	1,247	1,252	1,176
Expenses:			
Insurance premiums	904	989	917
Administration (Schedule 1)	120	120	120
Insurance claims	241	222	604
	1,265	1,331	1,641
Net loss for the year	(18)	(79)	(465)
Equity at beginning of year	1,867	1,692	2,157
Equity at end of year	$ 1,849	$ 1,613	$ 1,692

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

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005

	2005 Budget (Note 11)	2005 Actual	2004 Actual
		($ thousands)	
Operating activities:			
Assessments received	$ 17,185	$ 17,485	$ 15,916
Investment income received	4,800	6,337	5,521
Financial assistance recovered (paid)	(500)	9	2
Interest and bank charges paid	(6)	(4)	(3)
Insurance claims paid	(220)	(345)	(389)
Income taxes (paid) recovered	88	(114)	(459)
Paid to suppliers and employees	(5,140)	(4,440)	(4,620)
Special contribution paid	(9,854)	(9,972)	(9,168)
Cash flows from operating activities	6,353	8,956	6,800
Investing activities:			
Purchase of investments, net	(5,137)	(7,580)	(7,373)
Purchase of property and equipment	(216)	(193)	(75)
Cash flows used in investing activities	(5,353)	(7,773)	(7,448)
Cash inflow (outflow)	1,000	1,183	(648)
Cash at beginning of year	12,000	10,390	11,038
Cash at end of year	$ 13,000	$ 11,573	$ 10,390

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

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 AUTHORITY AND PURPOSE

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2005, credit unions in Alberta held deposits including accrued interest totalling $10,034,758,000 (2004 - $8,963,176,000). Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The primary objective of the Deposit Guarantee Fund is to enable the Corporation to guarantee the repayment of all deposits, including accrued interest, held by Alberta credit unions. The Deposit Guarantee Fund's statement of income includes deposit guarantee assessments received from credit unions, financial assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to Alberta credit unions under a policy administered by the Corporation. A credit union may claim a maximum of $100,000 for directors liability claims and $220,000 for other claims, less its deductible, which is payable out of the Master Bond Fund and a third party reinsurance policy insures the amount of the claim that exceeds $100,000 or $220,000 respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, investment income, insurance premiums paid for the reinsurance policy, an administration fee, and insurance claims paid.

(b) Use of estimates

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment and Master Bond Fund insurance claims (expected and unreported). The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Note 2 (continued)

(c) Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund, which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositor's capital.

(d) Investments

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses on sale of investments are included with investment income in the year of sale. Substantially all securities held are purchased with the intention to hold them to maturity.

(e) Property and equipment

The following rates are designed to amortize the cost of property and equipment over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	three year straight-line
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

(f) Income taxes

The Corporation records income taxes based on the tax liability method. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(g) Insurance claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported insurance claims. It makes an additional accrual of the estimated losses from unreported insurance claims based on the last three years' average actual loss experience.

(h) Accrual for financial assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial assistance becomes likely and the amount can reasonably be estimated.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Note 2 (continued)

(i) Fair value of financial instruments

Most financial instruments are valued at their carrying amounts included on the balance sheet, which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

NOTE 3 INVESTMENTS

	2005		2004	
	Cost	Market Value [2]	Cost	Market Value [2]
	($ thousands)			
Securities issued or guaranteed by:				
Canada	$ 39,537	$ 39,935	$ 31,620	$ 32,856
Provinces	21,824	22,144	19,817	20,442
Other [1]	42,994	43,096	45,337	46,483
Total	$ 104,355	$ 105,175	$ 96,774	$ 99,781

1 These securities include shares of Credit Union Central Alberta Limited ($100,000) and Concentra Financial Services Association ($15,000), which approximate market value and have no specific term to maturity.

2 Market value is calculated using independent pricing sources and Canadian investment dealers.

The investment portfolio is managed by external managers with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Markets All-Government indices over a four year period. The portfolio is comprised of high quality Canadian fixed income and debt related instruments. Competitive investment returns are achieved through management of the portfolio duration and holdings.

As at December 31, 2005, securities held have an average effective yield of 4.40% per annum based on cost (2004 - 4.70%); 4.10% per annum based on market (2004 - 3.80%). These securities have the following term structure based on cost: under one year - 2% (2004 - 2%); over one year and under five years - 49% (2004 - 51%); over five years and under ten years - 49% (2004 - 47%).

The market value of the investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the market value is the prevailing rate of interest. An increase of 1 percent in interest rates will result in a decrease of approximately $1,039,000 (2004 - $963,000) in the market value of the total investments; and conversely, a decrease of 1 percent in interest rates will result in an increase in the market value of the same amount.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

NOTE 4 OTHER ASSETS

	2005	2004
	($ thousands)	
Prepaid expenses	$ 790	$ 835
Future income taxes recoverable (Note 9)	13	27
Total	$ 803	$ 862

NOTE 5 PROPERTY AND EQUIPMENT

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		($ thousands)		
Furniture and equipment	$ 427	$ 369	$ 58	$ 20
Computer equipment	194	140	54	55
Leasehold improvements	148	124	24	30
Computer software	210	123	87	19
Net book value	$ 979	$ 756	$ 223	$ 124

NOTE 6 ACCRUAL FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1, the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

	2005	2004
	($ thousands)	
Accrual for financial assistance:		
Balance at beginning of year	$ 1,325	$ 1,265
Change in accrual for financial assistance	275	60
Balance at end of year	$ 1,600	$ 1,325
Provision for financial assistance:		
Change in accrual for financial assistance	$ 275	$ 60
Financial assistance payments	3	10
Loan loss recoveries	(12)	(12)
Provision for financial assistance	$ 266	$ 58

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

NOTE 7 SPECIAL CONTRIBUTION PAYABLE

	2005	2004
	($ thousands)	
Balance at beginning of year	$ 9,972	$ 9,168
Payment of previous year's special contribution	(9,972)	(9,168)
Special contribution for the year	11,032	9,972
Balance at end of year	$ 11,032	$ 9,972

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11% of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

NOTE 8 COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling $601,000 (2004 - $161,000).

The following amounts represent minimum payments over the next five years:

2006	$ 116,000
2007	113,000
2008	113,000
2009	119,000
2010	120,000

(b) Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation.

NOTE 9 INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims, or special contributions paid.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Note 9 (continued)

The Corporation's statutory income tax rate is 17.0% (2004 - 17.2%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before income taxes, for the following reasons:

	2005	2004
	($ thousands)	
Expected income tax expense on pre-tax income at the statutory rate (net of general tax reduction)	$ 1,276	$ 1,067
Add (deduct) tax effect of:		
Non-taxable assessments	(2,982)	(2,746)
Non-deductible special contribution	1,873	1,718
Non-taxable provision for financial assistance	45	10
Non-deductible insurance premiums	155	158
Non-deductible insurance claims	38	104
Other	7	2
Income taxes	$ 412	$ 313

At December 31, 2005 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $76,000 (2004 - $157,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 17.0%.

	2005	2004
	($ thousands)	
Current income taxes	$ 398	$ 311
Future income taxes	14	2
Income taxes	$ 412	$ 313

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION

	Directors Fees or Salary [1]	Other cash Benefits[2]	Other Non Cash Benefits[3]	2005 Total	2004 Total
	($ thousands)				
Chair [4,9]	$ 41	$ -	$ -	$ 41	$ 51
Board Members [4,9]	83	-	-	83	90
Current senior management:					
President and Chief Executive Officer [5]	165	31	31	227	228
Vice President, Finance and Administration	137	13	24	174	164
Vice President, Credit and Risk Management [6]	123	12	16	151	123
Director, Special Projects [7]	74	4	11	89	139
Director, Strategic Planning and Information Services [8]	94	6	13	113	93

1 Salary includes regular base pay.

2 Other cash benefits include bonus payments and accruals.

3 Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, vision coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships, staff fund, automobile allowances and tuitions.

4 The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance is a Board Member but receives no remuneration from the Corporation.

5 The amount reported for 2004 includes the current and the previous incumbent who retired May 31, 2004.

6 The title was changed from Vice President, Credit on December 1, 2005 when the Operations and Credit departments were combined.

7 The title was changed from Vice President, Operations on December 1, 2005 when the Operations and Credit departments were combined. The individual has been on leave since May 18, 2005.

8 This is a new position and the incumbent was hired January 24, 2005. As this is now the fifth most senior position in the Corporation, this incumbent's salary is reported for 2005, whereas the salary reported in 2004 was for the Manager, Information Services.

9 The minimum and maximum amounts paid to directors was $9,000 (2004 - $4,000) and $41,000 (2004 - $51,000) respectively. The average amount paid to directors was $16,000 (2004 - $18,000).

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

NOTE 11 2005 BUDGET

The 2005 budget was approved by the Board of Directors on September 24, 2004.

NOTE 12 COMPARATIVE FIGURES

The 2004 figures have been reclassified where necessary to conform to 2005 presentation.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

SCHEDULE TO THE FINANCIAL STATEMENTS

SCHEDULE OF ADMINISTRATION EXPENSES

Schedule 1

For the Year Ended December 31, 2005

	2005		2004
	Budget	**Actual**	**Actual**
		($ thousands)	
Deposit Guarantee Fund			
Salaries and benefits	$ 3,060	$ 2,977	$ 2,742
Rental charges	169	161	168
Staff travel	269	156	171
Professional fees	250	153	177
Office	169	130	115
Board and committee fees	157	124	141
Other	224	96	100
Amortization	204	91	120
Board and committee expenses	61	32	43
	4,563	3,920	3,777
Allocation to Master Bond Fund	(120)	(120)	(120)
	$ 4,443	$ 3,800	$ $ 3,657

N.A. PROPERTIES (1994) LTD.

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Shareholder of N.A. Properties (1994) Ltd.

I have audited the balance sheet of N.A. Properties (1994) Ltd. as at March 31, 2006 and the statement of operations and deficit for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

N.A. PROPERTIES (1994) LTD.

BALANCE SHEET
As At March 31, 2006

	2006	2005
	($ thousands)	
ASSETS		
Cash (Note 4)	$ 2,643	$ 2,568
Accounts receivable	-	6
Note receivable (Note 5)	17	14
	$ 2,660	$ 2,588
LIABILITIES		
Obligations under indemnities and commitments (Note 6)	$ 881	$ 964
SHAREHOLDER'S EQUITY		
Share capital (Note 7)	5,769	5,769
Deficit	(3,990)	(4,145)
	1,779	1,624
	$ 2,660	$ 2,588

On behalf of the Board:

Sole Director – Rod Matheson

STATEMENT OF OPERATIONS AND DEFICIT
For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Revenue		
Interest and other	$ 78	$ 64
Expense		
General and administrative	6	18
Operating income before provision	72	46
Recovery of (provision for) obligations under indemnities and commitments (Note 6)	83	138
Excess (deficiency) of revenue over expense for the year	155	184
Deficit, beginning of year	(4,145)	(4,329)
Deficit, end of year	$ (3,990)	$ (4,145)

The accompanying notes are part of these financial statements.

N.A. PROPERTIES (1994) LTD.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006
(thousands of dollars)

NOTE 1 AUTHORITY

N.A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the *Business Corporation Act,* Statutes of Alberta 2000, Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income tax.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of its remaining assets. The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past three years.

The Company also manages indemnities described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statement Presentation

A cash flow statement is not provided due to the limited nature of the Company's operations. All information about the Company's cash flows are contained within the financial statements.

(b) Fair Value

The carrying value of cash and accounts receivable approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of other financial assets and liabilities are provided in the applicable notes to the financial statements.

NOTE 4 CASH

Cash is deposited in the Consolidated Cash Investment Trust Fund which is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (March 31, 2005: 2.79% per annum).

NOTE 5 NOTE RECEIVABLE

The non-interest bearing note receivable in the amount of $933 was issued in November 1987 and matures in the year 2027. The carrying value of the note receivable as at March 31,2006 is $17 (2005 - $14). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium. The fair market value of the note at March 31, 2006 is estimated to be $52 (2004 - $42) using the current interest rate in effect and adjusting the rate for a risk premium.

N.A. PROPERTIES (1994) LTD.

NOTE 6 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totalled $1,852 at March 31,2006 (2005 - $2,058). The Company's indemnities expire in part in 2015 and in full in 2017. The Company estimates its liability under the indemnities annually, based on its assessment of the mortgages.

Changes in the Company's obligations under indemnities and commitments are as follows:

	2006	2005
Beginning balance	$ 964	$ 1,102
(Recovery of) provision for obligations under indemnities and commitments	$ (83)	$ (138)
Ending balance	$ 881	$ 964

NOTE 7 SHARE CAPITAL

Authorized

Unlimited number of Class " A” voting shares

Unlimited number of Class "B" voting shares

Unlimited number of Class "C" non-voting shares

Unlimited number of Class "D" non-voting shares

Unlimited number of Class "E” voting shares

Unlimited number of Class "F” non-voting shares

		2006	2005
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

NOTE 8 CONTINGENCIES

The Company has one lawsuit filed by plaintiffs outstanding. Management considers the liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

N.A. PROPERTIES (1994) LTD.

NOTE 9 RELATED PARTY TRANSACTIONS

Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no other related party transactions in the year ended March 31, 2006.

NOTE 10 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2006 and 2005.

NOTE 11 BUDGET

The Company's annual budget appears in the 2005-06 Government and Lottery Fund Estimates. The budget projected a net excess of revenue over expenses for the year of $50. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

GAINERS INC.

Consolidated Financial Statements

SEPTEMBER 30, 2005

AUDITOR'S REPORT

To the Shareholder of Gainers Inc.

I have audited the consolidated balance sheet of Gainers Inc. as at September 30,2005 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30,2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 23, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

GAINERS INC.

CONSOLIDATED BALANCE SHEET

As At September 30, 2005

	2005	2004
	($ thousands)	
ASSETS		
Cash	$ 2	$ 2
Investment in and amount due from former affiliate (Note 2)	-	-
	$ 2	$ 2
LIABILITIES		
Accounts payable and accrued liabilities	191	211
Principal and interest on prior years' income taxes (Note 3)	10,544	9,854
Long-term debt (Note 4)	192,861	192,837
	203,596	202,902
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 6)	1	1
Deficit	(203,595)	(202,901)
	(203,594)	(202,900)
	$ 2	$ 2

Approved by the Board of Directors:

Daniel Harrington, Director

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

For the Year Ended September 30, 2005

	2005	2004
	($ thousands)	
Expenses		
Interest on prior years' income taxes	$ 690	$ 623
General and administrative	4	5
Net loss for the year	(694)	(628)
Deficit, beginning of year	(202,901)	(217,275)
	(203,595)	(217,903)
Transfer of contributed surplus	-	15,002
Deficit, end of year	$ (203,595)	$ (202,901)

The accompanying notes are part of these consolidated financial statements.

GAINERS INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2005

	2005	2004
	($ thousands)	
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (694)	$ (628)
Net change in non-cash working capital items	670	606
	(24)	(22)
Financing activities		
Proceeds from long-term debt	24	22
Change in cash	-	-
Cash, beginning of year	2	2
Cash, end of year	$ 2	$ 2

The accompanying notes are part of these consolidated financial statements.

GAINERS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005
(in thousands of dollars)

NOTE 1 BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

The consolidated financial statements of the company include the accounts of Gainers Inc. and its wholly owned subsidiary companies: Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the "company".

Through September 25,1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. The company is waiting for the determination or settlement of remaining lawsuits before its dissolution.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATES

The investment, which has been written down to $nil value, comprises 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, US $100 per share and which carry annual non-cumulative dividends of US $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit.

Advances to the former affiliate, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.), which are recorded at $nil value, are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgment was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in Note 4 and was subsequently remitted to the Province of Alberta ("Alberta"). Gainers Inc. appealed this decision to the Alberta Court of Appeal and was successful on all issues. The Court of Appeal ordered that a new calculation of the amount to be repaid be made by the Court of Queen's Bench. Gainers Inc. has not taken further steps as Pocklington Financial Corporation is bankrupt.

GAINERS INC.

Note 2 (continued)

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. (350151) for $100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for one hundred dollars cash. Alberta filed a claim to have the sale reversed. The accounts of 350151 are not included in these financial statements. In December 1995, a judgment as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgment. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1989 was a breach of the Master Agreement (Note 4) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgement was subsequently paid from realizing on collateral security held for the debt.

NOTE 3 INCOME TAXES

The prior years' liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. It is considered highly unlikely that the company will be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount, which is reasonably expected to be recovered from the remaining assets of the company. The company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $54,491. The amount of non-capital losses available for carry forward is $207. These non-capital losses expire as follows:

	($ thousands)
2006	$ 100
2007	32
2008	38
2009	17
2010	11
2011	-
2012	-
2013	-
2014	5
2015	4
	$ 207

GAINERS INC.

NOTE 4 LONG-TERM DEBT

	2005	2004
	($ thousands)	
Province of Alberta		
Term loan	$ 6,000	$ 6,000
Assignment of prior operating loans from previous banker		
Term bank loan (US $8,749)	11,567	11,567
Operating loan	20,979	20,979
Advances under guarantee for principal and interest payments	31,947	31,947
Promissory note	42,846	42,846
Advance to facilitate sale	13,000	13,000
Advances under guarantee and indemnity for operating line	18,469	18,469
Default costs and guarantee fees	13,562	13,538
Accrued interest	34,491	34,491
	$ 192,861	$ 192,837

The fair value of the long-term debt is dependent on outcomes from claims filed by or against Gainers Inc. Due to the uncertainty of these items, the fair value as at September 30, 2005 is estimated to be $nil.

Province of Alberta

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

Interest

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

Security

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

GAINERS INC.

Master Agreement

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1,1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 5 CONTINGENCIES

a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Ultimate recovery of this claim cannot be determined at this time.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,084 (net of repayments) in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default. Ultimate recovery of this claim cannot be determined at this time.

c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement or alternatively, negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

   Mr. Pocklington has brought a counterclaim against the company in which Mr. Pocklington claims indemnification for the entire amount of the main claim.

Alberta obtained summary judgment which has been upheld by the Alberta court of Appeal; in the amount of $2,000 in respect of one of the certificates sworn by Mr. Pocklington in 1988. The Court of Appeal has sent the issue of the amount of interest on the judgement to the Trial Court to calculate.

GAINERS INC.

NOTE 6 SHARE CAPITAL

Authorized

Unlimited number of Class A common shares

Unlimited number of Class B preferred shares, redeemable/retractable at $1 per share with non-cumulative annual dividends at a rate not exceeding 16%of the redemption value

12,000,000 Class C preferred shares redeemable at $1 per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price

Issued

	2005	2004
	($ thousands)	
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	6,000
	$ 1	$ 1

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION OR BY DIRECTION OF THE MINISTER OF FINANCE

STATEMENT OF REMISSIONS, COMPROMISES AND WRITE-OFFS

For the year ended March 31, 2006

The following statement has been prepared pursuant to section 23 of the *Financial Administration Act.* The statement includes all write-offs and compromises of the Ministry of Finance made or approved during the fiscal year. There were no remissions.

WRITE-OFFS	
Department of Finance	
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	$ 57,100
Accounts and interest receivable	
Corporate income tax	3,653,377
Fuel tax	675,510
Hotel tax	44,850
Tobacco tax	9,860
NHL players tax	347
	4,441,044
Alberta Treasury Branches	
Loans and accounts receivable	17,573,000
	$ 22,014,044
COMPROMISES	
Corporate income tax	$ 2,268,692
Tobacco tax	1,253,519
	$ 3,522,211
	$ 25,536,255

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF BORROWINGS MADE UNDER SECTION 56(1) OF THE *FINANCIAL ADMINISTRATION ACT*

For the year ended March 31, 2006

The following statement has been prepared pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory notes	$ 4,406,100,000	$ 4,401,165,469
Debentures	141,000,000	141,000,000
	$ 4,547,100,000	$ 4,542,165,469

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF THE AMOUNT OF DEBT OF THE CROWN FOR WHICH SECURITIES WERE PLEDGED

The following statement has been prepared pursuant to section 66(2) of the *Financial Administration Act*.

The amount of the debt of the Crown outstanding at the end of the 2005-06 fiscal year for which securities were pledged under Part 6 of the *Financial Administration Act* was $Nil.

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF GUARANTEES AND INDEMNITIES

For the year ended March 31, 2006

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act*. The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Finance on behalf of the Crown and Provincial corporations for the year ended March 31, 2006, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recovered on debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Amount of Guarantee or Indemnity	Payments	Recoveries
CROWN GUARANTEES			
Gainers Inc. and subsidiaries	$ -	$ 57,100	$ -
CROWN IDEMNITIES			
Native residential school litigation indemnity payments recoverable from Department of Education	$ -	33,035	33,035
	$ -	$ 90,135	$ 33,035

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL Alberta

AUDITOR'S REPORT

To the Minister of Finance and
The Local Authorities Pension Plan Board of Trustees

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Local Authorities Pension Plan (the Plan) as at December 31, 2005 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2005 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 3, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 12,588,648	$ 10,806,190
Contributions receivable (Note 6)	29,406	21,280
Accrued investment income and accounts receivable	4,102	3,844
	12,622,156	10,831,314
Liabilities		
Accounts payable	3,014	3,838
Net assets available for benefits	12,619,142	10,827,476
Accrued Benefits		
Actuarial value of accrued benefits	13,482,700	12,116,400
Deficiency	$ (863,558)	$ (1,288,924)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in assets		
Contributions (Note 7)	$ 733,705	$ 602,436
Net investment income (Note 8)	1,563,841	1,017,321
	2,297,546	1,619,757
Decrease in assets		
Pension benefits	398,607	373,218
Refunds to members	85,706	52,686
Transfers to other plans	4,342	4,578
Plan expenses (Note 9)	17,225	17,112
	505,880	447,594
Increase in net assets	1,791,666	1,172,163
Net assets available for benefits at beginning of year	10,827,476	9,655,313
Net assets available for benefits at end of year	$ 12,619,142	$ 10,827,476

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 880,200	$ 788,900
Benefits earned	581,700	520,800
Changes in actuarial assumptions (Note 10 (a))	368,100	(9,200)
Net experience losses (Note 10 (a))	36,500	133,300
	1,866,500	1,433,800
Decrease in accrued benefits		
Benefits paid including interest	500,200	426,200
Net increase in accrued benefits	1,366,300	1,007,600
Accrued benefits at beginning of year	12,116,400	11,108,800
Accrued benefits at end of year (Note 10)	$ 13,482,700	$ 12,116,400

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Deficiency at beginning of year	$ (1,288,924)	$ (1,453,487)
Increase in net assets available for benefits	1,791,666	1,172,163
Net increase in accrued benefits	(1,366,300)	(1,007,600)
Deficiency at end of year	$ (863,558)	$ (1,288,924)

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 366/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, regional health authorities, school divisions, districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 11) are funded by employers and employees at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates for employers are 1.0% more than the rates for employees. The rates in effect at December 31, 2005 were 6.40% (2004 5.602%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.14% (2004 7.477%) of the excess for employees, and 7.40% (2004 6.602%) of pensionable earnings up to the YMPE and 10.14% (2004 8.477%) of the excess for employers.

The rates were reviewed by the Board in 2005 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the rates have increased at January 1, 2006 as follows: 6.75% of pensionable earnings up to the YMPE and 9.64% of the excess for employees, and 7.75% of pensionable earnings up to the YMPE and 10.64% of the excess for employers.

(c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least two years of membership. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of membership.

LOCAL AUTHORITIES PENSION PLAN

Note 1 (continued)

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where service is less than two years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may transfer out the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest.

(g) Optional Service and Reciprocal Transfers

All optional service purchases are to be cost-neutral to the Plan.

Transferred-in service will be on an actuarial reserve basis and transfers out will receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. This calculation method has been set out in the Plan regulations since 1993.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

LOCAL AUTHORITIES PENSION PLAN

Note 2 (continued)

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

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative investments including absolute return strategy investments, investments in partnership interests, private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

LOCAL AUTHORITIES PENSION PLAN

Note 2 (continued)

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

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption changes and net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

LOCAL AUTHORITIES PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2005		2004	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 226,699	1.8	$ 201,544	1.9
Canadian Long Term Government Bond Pool (b)	2,398,465	19.1	1,074,793	9.9
Canadian Dollar Public Bond Pool (b)	829,968	6.6	1,635,308	15.1
Real rate of return bonds (c)	622,491	4.9	514,088	4.8
Private Mortgage Pool (d)	286,011	2.3	279,928	2.6
External Managers Currency Alpha Pool (e)	36,616	0.3	18,684	0.2
Total fixed income securities	4,400,250	35.0	3,724,345	34.5
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (f)	1,150,817	9.1	1,609,711	14.9
Canadian Equity Enhanced Index Pool (g)	641,255	5.1	-	-
Canadian Small Cap Equity Pool (f)	557,826	4.4	452,090	4.2
Domestic Passive Equity Pooled Fund (h)	81,273	0.7	391,829	3.6
Private Equity Pool	10,215	0.1	11,007	0.1
Overlay US Equity Pool (l)	(133,596)	(1.1)	-	-
	2,307,790	18.3	2,464,637	22.8
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (i)	636,426	5.1	476,606	4.4
External Managers				
US Small/Mid Cap Equity Pool (j)	506,844	4.0	407,249	3.8
US Large Cap Equity Pool	-	-	- 230,739	2.1
Portable Alpha US Equity Pool (k)	306,251	2.4	138,530	1.3
Overlay US Equity Pool (l)	166,889	1.3	-	-
S&P 500 Pooled Index Fund (i)	9,589	0.1	-	-
	1,625,999	12.9	1,253,124	11.6
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (m)	1,704,667	13.5	-	-
EAFE Emerging Markets Equity Pool (n)	146,642	1.2	112,398	1.0
EAFE Core and Plus Equity Pools	-	-	1,444,818	13.4
EAFE Structured Equity Pooled Fund (o)	409,690	3.3	356,311	3.3
	2,260,999	18.0	1,913,527	17.7
Alternative Investments - Equities				
External Managers				
Absolute Return Strategy Pool (p)	483,302	3.9	480,348	4.5
Private Income Pool (q)	155,241	1.2	87,870	0.8
Foreign Private Equity Pool (q)	53,280	0.4	36,610	0.3
Timberland Pool (r)	52,231	0.4	-	-
	744,054	5.9	604,828	5.6
Total equities	6,938,842	55.1	6,236,116	57.7
Real Estate (Schedule E)				
Private Real Estate Pool (s)	1,249,556	9.9	845,729	7.8
Total investments	$12,588,648	100.0	$10,806,190	100.0

LOCAL AUTHORITIES PENSION PLAN

Note 3 (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool (CDPB) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Universe Bond Index and the Scotia Capital Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CDPB portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(f) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over the long term while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(g) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(h) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(i) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

LOCAL AUTHORITIES PENSION PLAN

Note 3 (continued)

(j) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(k) The Portable Alpha US Equity Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(l) The Overlay US Equity Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. The Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contract. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(m) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(n) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(o) The EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(p) The External Managers Absolute Return Strategy Pool is managed by external managers with the objective of providing investment returns comparable to the Consumer Price Index plus 6%. The pool is intended to yield absolute positive investment returns with low volatility using various investment strategies.

(q) The Foreign Private Equity Pool (FPEP) and the Private Income Pool (PIP) are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8% and the Consumer Price Index plus 6% respectively. The FPEP invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records. The PIP invests in infrastructure related projects that are structured to yield high current income. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(r) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The pool invests in a partnership interest in forestry land in British Columbia.

LOCAL AUTHORITIES PENSION PLAN

Note 3 (continued)

(s) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediate companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a long-term benchmark policy asset mix of 35% fixed income instruments, 55% equities and 10% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to enhance returns and manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity.

LOCAL AUTHORITIES PENSION PLAN

Note 5 (continued)

Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2005:

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	77	23	-	$1,354,629	$23,766	$1,169,391	$46,180
Forward foreign exchange contracts	100	-	-	1,588,770	3,540	1,002,233	22,595
Equity index futures contracts	100	-	-	498,130	5,944	37,723	3,450
Interest rate swap contracts	54	29	17	366,982	6,995	438,515	(16,936)
Cross-currency interest rate swap contracts	21	33	46	290,591	17,036	411,079	(19,260)
Credit default swap contracts	15	16	69	122,556	1,126	113,565	412
Bond index swap contracts	100	-	-	50,352	1,560	31,880	619
				$4,272,010	$59,967	$3,204,386	$37,060

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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

NOTE 6 CONTRIBUTIONS RECEIVABLE

	2005	2004
	($ thousands)	
Employers	$ 15,585	$ 11,399
Employees	13,821	9,881
	$ 29,406	$ 21,280

LOCAL AUTHORITIES PENSION PLAN

NOTE 7 CONTRIBUTIONS

	2005	2004
	($ thousands)	
Current and optional service		
Employers	$ 384,213	$ 316,894
Employees (a)	344,929	279,614
Transfers from other plans	4,563	5,928
	$ 733,705	$ 602,436

(a) Includes $12,881,000 (2004 $12,135,000) of optional service contributions.

NOTE 8 NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2005	2004
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 1,192,185	$ 681,553
Interest income	230,535	222,593
Dividend income	120,269	96,090
Real estate operating income	52,646	40,051
Securities lending income	2,999	2,616
Pooled funds management and associated custodial fees (Note 9)	(34,793)	(25,582)
	$ 1,563,841	$ 1,017,321

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 400,017	$ 334,794
Canadian Equities	550,697	328,429
Foreign Equities		
United States	34,378	51,023
Non-North American	254,080	209,153
Alternative Investments - Equities	57,884	22,071
Real Estate	266,785	71,851
	$ 1,563,841	$ 1,017,321

LOCAL AUTHORITIES PENSION PLAN

Note 8 (continued)

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Compound Annualized Return	Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	14.3%	7.8%	6.9%
Policy Benchmark**	12.8%	7.3%	6.6%

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

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

NOTE 9 PLAN EXPENSES

	2005	2004
	($ thousands)	
General administration costs and process improvements costs	$ 14,462	$ 14,299
Investment management costs	2,067	1,857
LAPP Corporation costs	497	600
Actuarial fees	199	356
	$ 17,225	$ 17,112

General administration costs and process improvement costs, including Plan Board costs (see Note 12) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling $34,793,000 (2004 $25,582,000) (see Note 8), which have been included in calculating net investment income, are excluded from plan expenses.

LAPP Corporation costs include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2005	2004
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$ 193.0	$ 187.0
Benefits	19.6	17.7
Director, Pension Policy		
Salary and bonus	127.1	125.5
Benefits	10.7	9.3
	$ 350.4	$ 339.5

LOCAL AUTHORITIES PENSION PLAN

Note 9 (continued)

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $333 per member (2004 $284 per member).

Pooled funds management and associated custodial fees amounted to $222 per member (2004 $170 per member). These expenses, which have been deducted in arriving at net investment income of the pools, are included in the determination of investment returns for the Plan (see Note 8).

Total plan expenses including pooled funds management and associated custodial fees amounted to 0.41% (2004: 0.39%) of assets under administration.

NOTE 10 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Mercer Human Resource Consulting and was then extrapolated to December 31, 2005. The 2004 valuation was completed after the financial statements of the Plan for 2004 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2004 are accounted for as assumptions changes and net experience losses in 2005.

The following is a summary of actuarial assumption changes and net experience losses as revealed in the 2004 valuation and reported in 2005:

	2005	2004
	($ thousands)	
Changes in actuarial assumptions		
Change of termination and retirement rates assumptions, percentage of members with an eligible spouse upon retirement assumption, and age gap assumption between male and female spouses	$ 368,100	-
Other assumption changes	-	(9,200)
	$ 368,100	$ (9,200)
Net experience losses (gains)		
Combined salary, CPP's YMPE increases and interest on contributions were other than assumed	$ 68,200	$ 7,900
Retirement, termination, mortality and disability experiences were less favourable than assumed	53,700	55,300
Cost-of-living increase in pension benefit payments were (lower) higher than expected	(45,000)	67,400
Changes to prior service and data	(19,400)	-
Other	(21,000)	2,700
	$ 36,500	$ 133,300

Actuarial valuations were determined using the projected benefit method pro-rated on service. The assumptions used in the actuarial valuations and extrapolations were developed as the best estimates of expected market conditions and other future events. These estimates were, after consultation with the Plan's actuary, approved by the Board of Trustees.

LOCAL AUTHORITIES PENSION PLAN

Note 10 (continued)

The major assumptions used were:

	2004 Valuation and 2005 Extrapolation	2003 Valuation and 2004 Extrapolation
	%	
Investment rate of return	6.70	6.70
Inflation rate	2.75	2.75
Salary escalation rate*	3.50	3.50

* In addition to merit and promotion.

The Board of Trustees has authorized a policy to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2006.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2005:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 900	0.8%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	554	0.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	2,128	2.6%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 12.03%.

LOCAL AUTHORITIES PENSION PLAN

NOTE 11 FUNDING VALUATION AND EXTRAPOLATION

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation and extrapolation purposes amounted to $12,821 million at December 31, 2005 (2004 $10,820 million).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by actuarial funding valuations as at December 31, 2002, 2003 and 2004 are funded by special payments totalling 3.82% of pensionable earnings shared equally between employers and employees until December 31, 2017. The special payments will decrease to 2.14% of pensionable earnings on January 1, 2018, further decrease to 0.22% of pensionable earnings on January 1, 2019 and continue until December 31, 2019. The special payments have been included in the rates in effect at January 1, 2006 (see Note 1(b)).

NOTE 12 REMUNERATION OF BOARD MEMBERS

Remuneration paid with respect to a total of 14 Board members during the year amounted to $107,000 (2004 $139,000).

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 presentation.

NOTE 14 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance, based on information provided by Alberta Pensions Administration Corporation and the Plan's actuary and after consultation with the Local Authorities Pension Plan Board of Trustees.

LOCAL AUTHORITIES PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 274,927	$ 232,295
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	1,691,768	1,381,985
Provincial		
Alberta, direct and guaranteed	5,477	1,033
Other, direct and guaranteed	1,545,484	1,010,546
Municipal	16,667	29,843
Corporate	497,508	637,474
Private		
Corporate	339,794	414,938
	4,096,698	3,475,819
Receivable from sale of investments and accrued investment income	29,486	29,574
Liabilities for investment purchases	(861)	(13,343)
	28,625	16,231
	$ 4,400,250	$ 3,724,345

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 4.00% per annum (2004 4.25% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount.

	2005	2004
	%	
under 1 year	1	2
1 to 5 years	9	21
6 to 10 years	19	22
11 to 20 years	20	18
over 20 years	51	37
	100	100

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 46,033	$ 34,374
Public equities (a) (b)		
Consumer discretionary	174,470	223,567
Consumer staples	109,520	128,185
Energy	526,917	417,652
Financials	626,683	678,629
Health care	31,933	52,827
Industrials	210,413	237,971
Information technology	108,266	133,202
Materials	312,312	430,899
Telecommunication services	106,227	88,586
Utilities	25,736	6,970
	2,232,477	2,398,488
Passive index	10,842	7,228
	2,243,319	2,405,716
Private Equity Pool	10,215	11,007
Receivable from sale of investments and accrued investment income	65,732	15,872
Liabilities for investment purchases	(57,509)	(2,332)
	8,223	13,540
	$ 2,307,790	$ 2,464,637

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $189,851,000 (2004 $277,244,000), which were used as underlying securities to support the notional amount of Canadian equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 55,868	$ 30,359
Public equities (a) (b)		
Consumer discretionary	175,884	179,336
Consumer staples	112,720	85,158
Energy	138,303	90,232
Financials	316,301	239,576
Health care	215,816	151,608
Industrials	197,119	167,265
Information technology	236,785	179,623
Materials	73,724	62,611
Telecommunication services	34,441	28,497
Utilities	55,258	37,167
	1,556,351	1,221,073
Passie index	3,163	-
	1,559,514	1,221,073
Receivable from sale of investments and accrued investment income	28,539	9,049
Liabilities for investment purchases	(17,922)	(7,357)
	10,617	1,692
	$ 1,625,999	$ 1,253,124

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $1,060,157,000 (2004 $593,485,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 11,065	$ 34,181
Public equities (a) (b)		
Consumer discretionary	256,028	258,357
Consumer staples	148,349	107,470
Energy	165,619	157,060
Financials	605,562	506,732
Health care	172,277	112,212
Industrials	273,890	202,971
Information technology	145,075	90,080
Materials	171,282	148,348
Telecommunication services	138,350	159,029
Utilities	91,538	73,966
	2,167,970	1,816,225
Passive index	72,840	47,258
Receivable from sale of investments and accrued investment income	29,812	23,612
Liabilities for investment purchases	(20,688)	(7,749)
	9,124	15,863
	$ 2,260,999	$ 1,913,527

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $422,869,000 (2004 $336,385,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of stock exchange on which stocks were purchased:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Japan	$ 486,395	$ 325,625
United Kingdom	438,811	408,058
France	219,520	164,684
Switzerland	161,710	122,351
Germany	128,711	125,963
Netherlands	114,840	100,078
Australia	84,971	84,915
Italy	68,609	75,271
Spain	60,002	46,576
Korea	50,591	32,116
Other	353,810	330,588
	$ 2,167,970	$ 1,816,225

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 161	$ 89
Real estate (a)		
Office	622,778	422,704
Retail	415,364	303,552
Industrial	124,164	66,677
Residential	56,985	40,969
	1,219,291	833,902
Passive index	27,493	10,537
Receivable from sale of investments and accrued investment income	2,611	1,201
	$ 1,249,556	$ 845,729

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Ontario	$ 756,288	$ 540,590
Alberta	331,244	184,873
Quebec	108,816	93,923
British Columbia	22,943	14,516
	$ 1,219,291	$ 833,902

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Management Employees Pension Plan (the Plan) as at December 31, 2005 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2005 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 3, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 1,949,988	$ 1,721,340
Accrued investment income and accounts receivable	358	414
Contributions receivable		
Employees	2,922	2,272
Employers	5,002	3,093
	1,958,270	1,727,119
Liabilities		
Accounts payable	98	141
Net assets available for benefits	1,958,172	1,726,978
Accrued Benefits		
Actuarial value of accrued benefits	2,124,067	1,995,079
Deficiency	$ (165,895)	$ (268,101)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Net investment income (Note 6)		
Investment income	$ 227,795	$ 163,484
Investment expenses	(3,368)	(3,208)
	224,427	160,276
Member service operations		
Contributions		
Current and optional service		
Employees	34,157	28,648
Employers	51,846	38,015
Pension benefits	(76,873)	(68,145)
Refunds to members	(1,900)	(2,117)
Transfers from (to) other plans, net	953	(186)
Member service expenses (Note 7)	(1,416)	(1,427)
	6,767	(5,212)
Increase in net assets	231,194	155,064
Net assets available for benefits at beginning of year	1,726,978	1,571,914
Net assets available for benefits at end of year	$ 1,958,172	$ 1,726,978

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 134,735	$ 126,393
Benefits earned	70,351	62,828
	205,086	189,221
Decrease in accrued benefits		
Benefits paid and transfers	(77,820)	(70,448)
Other changes in accrued benefits (Note 8)		
Net experience (gains) losses	(19,648)	14,378
Losses due to changes in actuarial assumptions	1,652	-
Impact of salary range increases	9,467	-
Loss due to increase in the maximum pensionable salary limit	10,251	-
	1,722	14,378
Net increase in accrued benefits	128,988	133,151
Accrued benefits at beginning of year	1,995,079	1,861,928
Accrued benefits at end of year (Note 8)	$ 2,124,067	$ 1,995,079

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Deficiency at beginning of year	$ (268,101)	$ (290,014)
Increase in net assets available for benefits	231,194	155,064
Net increase in accrued benefits	(128,988)	(133,151)
Deficiency at end of year	$ (165,895)	$ (268,101)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 367/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992 and have not withdrawn from the Plan since that date continue as members of this Plan. The Plan is a registered pension plan as defined in the Income Tax Act. The Plan's registration number is 0570887.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 9) are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2005 were 10.5% (2004 9.5%) of pensionable salary up to the *maximum pensionable salary limit* under the federal *Income Tax Act* for employees and 18.0% (2004 13.1%) for employers. The rates are reviewed at least once every three years by the Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the *maximum pensionable salary limit* under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Pensions are payable to members who have attained age 65 at retirement.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 1 (continued)

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

(i) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 2 (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

(i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

(iii) The fair value of alternative investments including investments in private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

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

(v) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

MANAGEMENT EMPLOYEES PENSION PLAN

Note 2 (continued)

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

(ii) Interest rate swaps are valued based on discounted cash flows using current market yields.

(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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

(v) Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2005		2004	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 11,941	0.6	$ 29,865	1.7
Canadian Dollar Public Bond Pool (b)	568,464	29.2	476,729	27.7
Private Mortgage Pool (c)	100,428	5.1	81,601	4.7
Real rate of return bonds (d)	69,780	3.6	82,288	4.8
External Managers Currency Alpha Pool (e)	3,003	0.2	-	-
Total fixed income securities	753,616	38.7	670,483	38.9
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	200,825	10.3	121,534	7.1
Canadian Pooled Equities Fund (g)	118,669	6.1	34,941	2.0
External Managers				
Canadian Equity Enhanced Index Pool (h)	50,447	2.6	-	-
Canadian Large Cap Equity Pool (i)	41,581	2.1	187,979	10.9
Canadian Small Cap Equity Pool	-	-	56,075	3.3
Growing Equity Income Pool (j)	27,396	1.4	34,188	2.0
Canadian Multi-Cap Pool (k)	31,710	1.6	-	-
Overlay US Equity Pool (o)	(21,175)	(1.1)	-	-
Private Equity Pool	1,453	0.1	1,565	0.1
	450,906	23.1	436,282	25.4
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (l)	119,640	6.1	49,246	2.9
S&P 500 Pooled Index Fund (l)	80,243	4.1	66,006	3.8
External Managers				
US Mid/Small Cap Equity Pool (m)	32,187	1.7	29,414	1.7
US Large Cap Equity Pool	-	-	101,166	5.9
Portable Alpha US Equity Pool (n)	16,790	0.9	-	-
Overlay US Equity Pool (o)	26,452	1.4	-	-
Growing Equity Income Pool (j)	6,871	0.3	3,397	0.2
	282,183	14.5	249,229	14.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	234,175	12.0	-	-
EAFE Passive Equity Pool (q)	16,430	0.9	13,414	0.8
EAFE Core and Plus Equity Pool	-	-	202,013	11.7
Emerging Markets Equity Pool (r)	23,913	1.2	18,329	1.1
EAFE Structured Equity Pooled Fund (q)	39,409	2.0	35,436	2.1
	313,927	16.1	269,192	15.7
Alternative Investments - Equities				
Private Equity 2002 , Private Equity 2004 and Private Income Pools (s)	22,560	1.1	12,963	0.7
Real Estate Equities (Schedule E)				
Private Real Estate Pool (t)	126,796	6.5	83,191	4.8
Total equities	1,196,372	61.3	1,050,857	61.1
Total investments	$ 1,949,988	100.0	$ 1,721,340	100.0

MANAGEMENT EMPLOYEES PENSION PLAN

Note 3 (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the pool a modest amount of cash to minimize rebalancing of cash flows in or out of the pool when the forward foreign exchange contracts settle.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(h) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(i) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(j) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 3 (continued)

(k) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

(l) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(m) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(n) The Portable Alpha US Equity Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(o) The Overlay US Equity Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. The Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contract. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(p) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(q) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 3 (continued)

(r) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(s) The Private Equity Pool 2002 and Private Equity Pool 2004 are managed with the objective of providing investment returns comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool is managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to provide high current income.

(t) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediate companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities.

In order to earn the best possible return at an acceptable level of risk, the Board has established an interim benchmark policy asset mix of 39% fixed income instruments and 61% equities for 2005 and a long-term policy asset mix of 34% fixed income instruments and 66% equities. Equities include investments in real estate and alternative investments. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 5 (continued)

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2005:

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	81	19	-	$ 382,966	$ 10,257	$ 185,918	$ 6,919
Interest rate swap contracts	48	36	16	125,539	2,489	84,082	(3,116)
Cross-currency interest rate swap contracts	17	31	52	110,488	7,606	83,528	(3,237)
Equity index futures contracts	100	-	-	102,745	1,242	4,916	415
Forward foreign exchange contracts	100	-	-	98,285	(71)	32,993	334
Credit default swap contracts	15	17	68	43,450	402	20,995	120
Bond index swap contracts	100	-	-	27,902	608	9,294	180
				$ 891,375	$ 22,533	$ 421,726	$ 1,615

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 6 NET INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	2005	2004
	($ thousands)	
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 156,572	$ 101,697
Interest income	50,416	41,734
Dividend income	15,105	15,361
Real estate operating income	5,234	4,299
Securities lending income	468	393
	227,795	163,484
Investment expenses	(3,368)	(3,208)
Net investment income	$ 224,427	$ 160,276

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 52,470	$ 55,322
Canadian Equities	103,056	59,951
Foreign Equities		
United States	3,491	7,663
Non-North American	36,313	29,890
Alternative Investments - Equities	2,465	(366)
Real Estate Equities	26,632	7,816
Net investment income	$ 224,427	$ 160,276

Investment expenses totalling $3,368,000 (2004 $3,208,000) are included in the calculation of Plan's investment performance results, which are as follows:

	One-Year Return	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	13.1%	7.6%	7.3%
Policy Benchmark**	11.9%	7.0%	6.8%

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

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 7 MEMBER SERVICE EXPENSES

Member service expenses, including Board costs in the amount of $43,000 (2004 $49,000), were charged to the Plan on a cost-recovery basis.

NOTE 8 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Aon Consulting Inc. and was then extrapolated to December 31, 2005, after taking into account the impact of salary range increases in 2005. The 2004 valuation was completed after the financial statements of the Plan for 2004 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2004 are accounted for as assumption changes and net experience gains in 2005.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimates of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	2004 Valuation and 2005 Extrapolation	2003 Valuation and 2004 Extrapolation
	%	
Asset real rate of return	4.0	4.0
Inflation rate	2.75	2.75
Investment rate of return	6.75	6.75
Salary escalation rate*	3.25	3.25

* In addition to merit and promotion.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 8 (continued)

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2005:

	Sensitivities		
	Changes in Assumptions %	**Increase in Plan Deficiency ($ millions)**	**Increase in Current Service Cost as a % Pensionable Earnings ***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 150	1.0%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	29	0.5%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	297	3.7%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 21.3%.

NOTE 9 FUNDING VALUATION AND EXTRAPOLATION

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $1,836.8 million at December 31, 2005 (2004 $1,731.5 million).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by actuarial funding valuations as at December 31, 2001 and 2004 are funded by special payments totalling 7.2% of pensionable earnings shared between employees and employers until December 31, 2015. The special payments will decrease to 5.1% of pensionable earnings on January 1, 2016 and continue until December 31, 2018 as required to eliminate the actuarial unfunded liability on or before that date. The special payments have been included in the rates in effect at December 31, 2005 (see Note 1(b)).

NOTE 10 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 presentation.

NOTE 11 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Management Employees Pension Board.

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 21,375	$ 32,805
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	223,628	215,109
Provincial		
Alberta, direct and guaranteed	3,751	301
Other, direct and guaranteed	118,298	115,284
Municipal	3,187	6,249
Corporate	233,137	177,847
Private		
Corporate	143,018	120,959
	725,019	635,749
Receivable from sale of investments and accrued investment income	7,292	5,819
Liabilities for investment purchases	(70)	(3,890)
	(871)	(871)
	7,222	1,929
	$ 753,616	$ 670,483

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 4.24% per annum (2004 4.13% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount:

	2005	2004
	%	
under 1 year	2	2
1 to 5 years	29	32
6 to 10 years	32	29
11 to 20 years	15	15
over 20 years	22	22
	100	100

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 2,989	$ 4,355
Public equities (a) (b)		
Consumer discretionary	25,033	35,330
Consumer staples	15,239	21,496
Energy	115,729	77,428
Financials	137,072	128,383
Health care	4,920	8,089
Industrials	25,540	38,391
Information technology	18,158	23,041
Materials	62,796	72,870
Telecommunication services	22,116	17,905
Utilities	4,464	2,734
	431,067	425,667
Passive index	8,603	897
	439,670	426,564
Private Equity Pool	1,453	1,565
Receivable from sale of investments and accrued investment income	11,771	4,124
Liabilities for investment purchases	(4,977)	(326)
	6,794	3,798
	$ 450,906	$ 436,282

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $183,833,000 (2004 $88,081,000), which were used as underlying securities to support Canadian equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

December 31, 2005

	Plan's Share	
	2005	**2004**
	($ thousands)	
Deposits and short-term securities	$ 7,694	$ 4,367
Public equities (a) (b)		
Consumer discretionary	29,542	39,251
Consumer staples	24,164	19,689
Energy	24,336	16,612
Financials	59,906	50,150
Health care	35,867	29,806
Industrials	32,052	32,691
Information technology	40,269	33,596
Materials	9,621	9,331
Telecommunication services	7,204	6,087
Utilities	9,476	6,941
	272,437	244,154
Passive index	201	-
	272,638	244,154
Receivable from sale of investments and accrued investment income	6,452	1,542
Liabilities for investment purchases	(4,601)	(834)
	1,851	708
	$ 282,183	$ 249,229

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $188,684,000 (2004 $69,299,000), which were used as underlying securities to support US equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 1,283	$ 4,928
Public equities (a) (b)		
Consumer discretionary	35,640	36,333
Consumer staples	20,216	14,966
Energy	22,989	21,981
Financials	83,737	71,394
Health care	23,706	15,614
Industrials	38,028	28,625
Information technology	19,955	12,660
Materials	23,732	20,990
Telecommunications services	19,112	22,184
Utilities	12,684	10,356
	299,799	255,103
Passive index	11,878	7,706
Receivable from sale of investments and accrued investment income	3,223	2,557
Liabilities for investment purchases	(2,256)	(1,102)
	967	1,455
	$ 313,927	$ 269,192

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $41,903,000 (2004 $33,454,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of stock exchange on which stocks were purchased.

	Plan's Share 2005	Plan's Share 2004
	$ thousands)	
Japan	$ 66,859	$ 45,877
United Kingdom	61,072	57,539
France	30,118	22,920
Switzerland	22,262	17,170
Germany	17,683	17,576
Netherlands	15,629	13,908
Australia	11,683	11,767
Italy	9,433	10,549
Spain	8,250	6,494
Korea	7,304	4,766
Other	49,506	46,537
	$ 299,799	$ 255,103

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 16	$ 9
Real estate (a)		
Office	63,196	41,579
Retail	42,148	29,859
Industrial	12,599	6,559
Residential	5,782	4,030
	123,725	82,027
Passive index	2,790	1,037
Receivable from sale of investments and accrued investment income	265	118
	$ 126,796	$ 83,191

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Ontario	$ 76,743	$ 53,175
Alberta	33,612	18,185
Quebec	11,042	9,239
British Columbia	2,328	1,428
	$ 123,725	$ 82,027

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Provincial Judges and Masters in Chambers (Registered) Pension Plan (the Plan) as at March 31, 2006 and the Statement of Changes in Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at March 31, 2006 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 16, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At March 31, 2006

	2006	2005
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 94,007	$ 82,878
Contributions receivable	202	175
Accounts receivable	950	2
	95,159	83,055
Liabilities		
Accounts payable	763	14
Net assets available for benefits	94,396	83,041
Accrued Benefits		
Accrued benefits (Note 7)	88,612	83,625
Actuarial Surplus (Deficiency) (Note 8)	$ 5,784	$ (584)

See accompanying notes and schedules.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Increase in assets		
Net investment income (Note 9)	$ 11,878	$ 5,680
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	785	687
Province of Alberta	1,572	1,385
Unfunded liabilities		
Province of Alberta	1,172	1,172
	3,529	3,244
	15,407	8,924
Decrease in assets		
Pension benefits	3,967	3,871
Administration expenses (Note 10)	85	93
	4,052	3,964
Increase in net assets	11,355	4,960
Net assets available for benefits at beginning of year	83,041	78,081
Net assets available for benefits at end of year	$ 94,396	$ 83,041

See accompanying notes and schedules.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers (Registered) Pension Plan (Registered Plan) is a summary only. For a complete description of the Registered Plan, reference should be made to the *Provincial Court Act*, Chapter P-31, Revised Statutes of Alberta 2000, *Court of Queen's Bench Act*, Chapter C-31, Revised Statutes of Alberta 2000, *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and *Alberta Regulation* 196/2001.

(a) General

Effective April 1, 1998, the Registered Plan is a contributory defined benefit pension plan for Provincial Judges and Masters in Chambers of the Province of Alberta. The Registered Plan is a registered pension plan as defined in the *Income Tax Act* and is not subject to income taxes. The Registered Plan's registration number is 0927764.

(b) Funding Policy

Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Registered Plan. The rates in effect at March 31, 2006 remained unchanged at 7.0% of *capped salary* for plan members and 14.03% of *capped salary* for the Province. The rates are to be reviewed at least once every three years by the Province based on recommendations of the Registered Plan's actuary.

(c) Retirement Benefits

The Registered Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the *maximum pensionable salary limit* under the federal *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%. The normal pensionable age is 70 years of age.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 and before April 1, 1998 if they retire with at least five years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained at age 55.

Members are entitled to an unreduced pension on service after March 31, 1998 if they retire with at least five years of service and have attained age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members who have attained age 70.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 1 (continued)

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

(g) Province's Liability for Benefits

Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Registered Plan.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Registered Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Registered Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 2 (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Registered Plan or by pooled investment funds are explained in the following paragraphs:

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

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative investments including investments in partnership interests, private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

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

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income or loss.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 2 (continued)

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in investment income or losses. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption changes and net experience gains or losses in the note showing the changes in the value of accrued benefits (see Note 7).

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULES B TO F)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule B)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 1,457	1.6	$ 993	1.2
Canadian Dollar Public Bond Pool (b)	32,741	34.8	29,255	35.3
Private Mortgage Pool (c)	5,514	5.9	4,938	6.0
Tactical Asset Allocation Pool (m)	188	0.2	166	0.2
External Managers Currency Alpha Pool	39	-	-	-
Total fixed income securities	39,939	42.5	35,352	42.7
Canadian Equities (Schedule C)				
Domestic Passive Equity Pooled Fund (d)	8,266	8.8	7,239	8.7
Canadian Pooled Equities Fund (e)	5,189	5.5	4,485	5.4
External Managers				
Canadian Equity Enhanced Index Pool (f)	2,396	2.5	2,237	2.7
Canadian Large Cap Equity Pool (g)	1,813	1.9	1,451	1.8
Growing Equity Income Pool (h)	1,029	1.1	1,069	1.3
Canadian Multi-Cap Pool (i)	1,126	1.2	947	1.1
Private Equity Pool	105	0.2	115	0.2
Tactical Asset Allocation Pool (m)	(984)	(1.0)	(843)	(1.0)
	18,940	20.2	16,700	20.2
United States Equities (Schedule D)				
S&P 500 Pooled Index Fund (j)	6,090	6.5	6,059	7.3
US Passive Equity Pooled Fund (j)	3,283	3.5	2,913	3.5
Portable Alpha US Pool (k)	1,902	2.0	1,475	1.8
External Managers				
US Mid/Small Cap Equity Pool (l)	1,817	1.9	1,472	1.8
Growing Equity Income Pool (h)	319	0.3	170	0.2
Tactical Asset Allocation Pool (m)	994	1.1	847	1.0
	14,405	15.3	12,936	15.6
Non-North American Equities (Schedule E)				
External Managers				
EAFE Active Equity Pool (n)	11,183	11.9	9,778	11.8
Emerging Markets Equity Pool (o)	968	1.0	905	1.1
EAFE Passive Equity Pool (p)	952	1.0	791	0.9
EAFE Structured Equity Pooled Fund (p)	1,972	2.1	1,631	2.0
	15,075	16.0	13,105	15.8
Alternative Investments - Equities				
Private Income Pool	7	-	-	-
Real Estate Equities (Schedule F)				
Private Real Estate Pool (q)	5,641	6.0	4,785	5.7
Total equities	54,068	57.5	47,526	57.3
Total investments	$ 94,007	100.0	$ 82,878	100.0

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 3 (continued)

(a) The Consolidated Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(e) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection while remaining sector neutral.

(f) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(g) The External Managers Canadian Large Cap Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple managers each of whom has a different investment style and market capitalization focus.

(h) The Growing Equity Income Pool is managed with the objective of providing returns higher than the total return of the S&P/TSX Custom Dividend Index over a four-year period. The pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

(i) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

(j) The S&P 500 Pooled Index Fund and the US Passive Equity Pooled Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invests in futures, swaps and other structured investments.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 3 (continued)

(k) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(l) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple investment styles and unique market capitalization focus.

(m) The Tactical Asset Allocation Pool is managed with the objective of providing a quick, efficient and economical way to earn excess returns, on an opportunistic basis, by taking positions that effectively alter a portfolio's broad asset mix, or capitalize on significant anomalies in the market. The pool is comprised of synthetic instruments that increase the effective weight of a portfolio in one broad asset category while simultaneously decrease the effective weight in another broad asset category. As the pool is notionally a zero net investment portfolio, it has an absolute return of zero as its benchmark.

(n) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(o) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(p) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(q) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Minister has established a long-term policy asset mix of 44% fixed income instruments and 56% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Registered Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest, credit and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 5 (continued)

The following is a summary of the Registered Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006:

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%			($ thousands)		
Equity index swap contracts	76	24	-	$ 17,568	$ 322	$ 13,747	$ (1)
Credit default swap contracts	2	4	94	10,897	25	1,821	(16)
Interest rate swap contracts	46	42	12	8,002	(26)	4,167	(98)
Equity index futures contracts	100	-	-	5,174	86	2,010	24
Cross-currency interest rate swap contracts	15	31	54	5,154	327	5,710	(48)
Forward foreign exchange contracts	100	-	-	2,342	-	1,900	12
Bond index swap contracts	100	-	-	1,921	180	569	4
				$ 51,058	$ 914	$ 29,924	$ (123)

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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

NOTE 6 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (UNREGISTERED PLAN)

The Unregistered Plan is established with effect from April 1, 1998 to collect contributions and to provide pension benefits to plan members in excess of the maximum benefits allowed by the *Income Tax Act*. The Unregistered Plan is a *Retirement Compensation Arrangement* (RCA) under the *Income Tax Act* and is administered by the Province separately. Accordingly, the Unregistered Plan's assets, liabilities and net assets available for benefits referred to below have not been included in these financial statements.

The Unregistered Plan is funded by contributions from plan members and the Province. The contribution rates in effect at March 31, 2006 were unchanged at 7.0% of pensionable salary in excess of *capped salary* for plan members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed the rate payable by plan members and is set by the Minister of Finance, taking into account recommendations of the Unregistered Plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 6 (continued)

A summary of the net assets available for benefits for the Unregistered Plan as at March 31, 2006 and changes in net assets available for benefits for the year then ended is as follows:

	2006	2005
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	$ 4,532	$ 3,833
Income tax refundable	5,693	4,598
Accounts payable, net	(298)	(43)
	9,927	8,388
Liabilities		
Actuarial value of accrued benefits	60,475	47,749
Excess of liabilities over assets	(50,548)	(39,361)
Reserve Fund (a)	46,100	38,831
Net liabilities	$ (4,448)	$ (530)

(a) Contributions from the Province of Alberta as determined by the Minister of Finance based on recommendations by the Unregistered Plan's actuary are collected and held in the Provincial Judges and Masters in Chambers Reserve Fund. These contributions are invested by the Province to meet future benefit payments of the Unregistered Plan over the long term.

	2006	2005
	($ thousands)	
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	$ 1,067	$ 1,092
Province of Alberta	1,067	1,092
Investment income	123	83
	2,257	2,267
Decrease in assets		
Increase in actuarial value of accrued benefits	(12,726)	(9,454)
Pension benefits	(651)	(556)
Administration costs	(67)	(72)
	(13,444)	(10,082)
Increase in the Reserve Fund	7,269	6,985
Decrease in net assets	(3,918)	(830)
Net (liabilities) assets at beginning of year	(530)	300
Net (liabilities) at end of year	$ (4,448)	$ (530)

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 6 (continued)

An actuarial valuation for the Unregistered Plan was carried out as at December 31, 2005 by Johnson Inc. and was extrapolated to March 31, 2006. The 2005 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Unregistered Plan's actuary, the Plan's management approved these best estimates.

The major assumptions used in the actuarial valuation were the same as those used in the valuation of the Registered Plan except for the investment return rate which was assumed to be 5.5% per annum until the year 2016 and 6.5% per annum thereafter (see Note 7).

The Unregistered Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Unregistered Plan.

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Registered Plan was carried out as at December 31, 2005 by Johnson Inc. and was then extrapolated to March 31, 2006. The 2005 valuation was determined using the projected benefit method based on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Registered Plan's actuary, the Plan's management approved these best estimates.

The major assumptions used were:

	December 31, 2005 Valuation and March 31, 2006 Extrapolation	March 31, 2003 Valuation and March 31, 2005 Extrapolation
	%	%
Asset real rate of return	3.5	3.5
Inflation rate	3.0	3.0
Investment return	6.5	6.5
Salary escalation rate	4.0	4.0
Pension cost of living increase as a percentage of Alberta Consumer Price Index	60	60

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 7 (continued)

The following statement shows the principal components of the change in the value of accrued benefits.

	2006	2005
	($ thousands)	
Accrued pension benefits at beginning of year	$ 83,625	$ 79,453
Interest accrued on benefits	5,436	5,164
Net experience losses (gains)	214	(411)
Benefits earned	3,304	3,290
Net benefits paid	(3,967)	(3,871)
Accrued pension benefits at end of year	$ 88,612	$ 83,625

(b) Sensitivity of Changes in Major Assumptions

The Registered Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Registered Plan. The following is a summary of the sensitivities of the Registered Plan's surplus and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2006:

		Sensitivities	
	Changes in Assumptions %	Decrease in Plan Surplus ($ millions)	Increase in Current Service Cost as % of Capped Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (6.0)	1.3%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(0.2)	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	(9.9)	1.8%

* The current service cost as % of capped pensionable earnings as determined by the 2005 valuation is 20.95%.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTE 8 ACTUARIAL SURPLUS

Any assets remaining in the Registered Plan after all benefits are paid on complete wind-up must be returned to the Province of Alberta.

NOTE 9 NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2006	2005
	($ thousands)	
Net realized and unrealized gains on investments including those arising from derivative transactions	$ 8,449	$ 2,555
Interest income	2,581	2,335
Dividend income	658	640
Real estate operating income	271	237
Securities lending income	23	16
Pooled funds management and associated custodial fees	(104)	(103)
	$ 11,878	$ 5,680

The following is a summary of the Registered Plan's net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed Income Securities	$ 2,003	$ 1,891
Canadian Equities	4,814	2,328
Foreign Equities		
United States	962	(207)
Non-North American	3,095	945
Real Estate	1,004	723
	$ 11,878	$ 5,680

NOTE 10 ADMINISTRATION EXPENSES

Administration expenses comprise $32,000 (2005 $28,000) in investment management and $53,000 (2005 $65,000) in general administration costs. These expenses were paid to Alberta Finance and Alberta Pensions Administration Corporation respectively on a cost-recovery basis. Pooled funds management and associated custodial fees totalling $104,000 (2005 $103,000), which have been deducted from investment income of the pools, are excluded from administration expenses (see Note 9).

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2006 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENT RETURNS — Schedule A

March 31, 2006

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

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns and the relevant benchmarks for the Plan for the one-year and four-year periods ended March 31, 2006 are as follows:

	One Year Return				4 Year Compound Annualized Return
	2006	**2005**	**2004**	**2003**	
Time-weighted rates of return					
Short-term fixed income	2.9	2.4	3.0	2.9	2.8
Scotia Capital 91-Day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*2.7*
Long-term fixed income	5.7	5.6	11.7	9.6	8.1
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*7.4*
Canadian equities	28.8	15.0	36.7	(17.2)	13.7
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*13.5*
United States equities	8.1	(2.1)	22.2	(30.4)	(2.5)
Standard & Poor's 500 Index	*7.8*	*(1.5)*	*20.5*	*(30.7)*	*(3.0)*
Non-North American equities	24.1	7.6	40.9	(29.0)	7.5
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*6.1*
Real estate	21.3	17.3	7.5	9.8	13.8
IPD All Property Index	*17.1*	*21.3*	*8.0*	*11.5*	*11.8*
Overall	14.3	7.3	21.8	(8.6)	8.1
Policy Benchmark	*12.7*	*6.8*	*21.3*	*(9.3)*	*7.2*

The current sector benchmark indices are as of March 31, 2006. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule B

March 31, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 1,730	$ 1,259
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	9,019	8,733
Provincial, direct and guaranteed		
Alberta	194	18
Other	6,097	7,066
Municipal	166	371
Corporate, public and private	22,251	17,670
	37,727	33,858
Receivable from sale of investments and accrued investment income	803	405
Liabilities for investment purchases	(321)	(170)
	482	235
	$ 39,939	$ 35,352

(a) Fixed income securities held as at March 31, 2006 had an average effective market yield of 4.78% (2005 4.59%) per annum. The following term structure of these securities as at March 31, 2006 is based on principal amount:

	2006	2005
	%	
under 1 year	3	3
1 to 5 years	31	35
6 to 10 years	35	33
11 to 20 years	12	12
over 20 years	19	17
	100	100

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule C

March 31, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 96	$ 125
Public Equities (a) (b)		
Consumer discretionary	977	1,055
Consumer staples	554	719
Energy	5,231	3,369
Financials	5,596	5,315
Health care	199	224
Industrials	1,126	888
Information technology	764	894
Materials	2,764	2,359
Telecommunication services	879	1,028
Utilities	184	231
	18,274	16,082
Small Cap pooled fund	339	288
	18,613	16,370
Private Equities	105	115
Receivable from sale of investments and accrued investment income	429	269
Liabilities for investment purchases	(303)	(179)
	126	90
	$ 18,940	$ 16,700

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $7,313,000 (2005 $6,519,000), which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule D

March 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$ 58	$ 135
Public Equities (a) (b)		
Consumer discretionary	1,490	1,517
Consumer staples	1,205	1,207
Energy	1,343	1,120
Financial	3,044	2,604
Health care	1,821	1,664
Industrials	1,782	1,614
Information technology	2,178	1,939
Materials	501	502
Telecommunication services	409	355
Utilities	452	456
	14,225	12,978
Receivable from sale of investments and accrued investment income	371	58
Liabilities for investment purchases	(249)	(235)
	122	(177)
	$ 14,405	$ 12,936

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $5,880,000 (2005 $7,575,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule E

March 31, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 343	$ 323
Public Equities (a) (b)		
Consumer discretionary	1,705	1,670
Consumer staples	859	737
Energy	1,074	1,061
Financial	4,181	3,360
Health care	994	757
Industrials	1,914	1,487
Information technology	970	631
Materials	1,173	1,105
Telecommunication services	786	1,077
Utilities	628	548
	14,284	12,433
Emerging market equity pools	376	376
Receivable from sale of investments and accrued investment income	341	148
Liabilities for investment purchases	(269)	(175)
	72	(27)
	$ 15,075	$ 13,105

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $1,884,000 (2005 $1,663,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's. The following is a summary of the Plan's share of Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Japan	$ 3,323	$ 2,120
United Kingdom	2,817	2,696
France	1,450	1,223
Germany	970	876
Switzerland	961	778
Netherlands	734	671
Australia	531	559
Italy	455	474
Spain	394	361
Sweden	297	332
Other	2,352	2,343
	$ 14,284	$ 12,433

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule F

March 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$ 3	$ 2
Real estate (a)		
Office	2,788	2,176
Retail	1,866	1,938
Industrial	587	378
Residential	254	216
	5,495	4,708
Passive index	131	69
Receivable from sale of investments and accrued investment income	12	6
	$ 5,641	$ 4,785

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2006	2005
	($ thousands)	
Ontario	$ 3,346	$ 3,133
Alberta	1,538	978
Quebec	502	495
British Columbia	109	102
	$ 5,495	$ 4,708

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Accrued Benefits and Net Assets Available for Benefits of the Public Service Management (Closed Membership) Pension Plan (the Plan) as at December 31, 2005 and the Statement of Changes in Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Accrued Benefits and Net Assets Available for Benefits of the Plan as at December 31, 2005 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 3, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

STATEMENT OF ACCRUED BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Accrued Benefits		
Actuarial value of accrued pension benefits (Note 5)	$ 684,399	$ 661,418
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	709	672
Accounts receivable	104	88
	813	760
Liabilities		
Accounts payable	2	6
Net assets available for benefits	811	754
Excess of actuarial value of accrued pension benefits over net assets	$ 683,588	$ 660,664

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in assets		
Contributions from the Province of Alberta	$ 58,400	$ 57,000
Investment income	35	54
	58,435	57,054
Decrease in assets		
Pension benefits	58,027	58,138
Administration expenses (Note 4)	345	352
Refunds and transfer to members	6	-
	58,378	58,490
Increase (Decrease) in net assets	57	(1,436)
Net assets available for benefits at beginning of year	754	2,190
Net assets available for benefits at end of year	$ 811	$ 754

See accompanying notes.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000.

(a) General

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the Income Tax Act, and is not subject to income taxes. The Plan's registration number is 1006923.

(b) Funding Policy

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of service. In addition, those members who had achieved 35 years of service at August 1, 1992 and subsequently terminated are also entitled to a pension.

(d) Cost-of-Living Adjustments

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

(e) Guarantee

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan and the plan costs.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles (see Note 1 (e)). The statements provide information about the net assets available in the Plan to meet future benefit payments, and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued pension benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued pension benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the actuarial value of accrued pension benefits (see Note 5(a)).

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund. The Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2005, securities held by the Fund have an average effective market yield of 3.6% per annum (2004 2.6% per annum) and an average duration of 115 days (2004 125 days).

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

NOTE 4 ADMINISTRATION EXPENSES

	2005	2004
	($ thousands)	
General administration costs	$ 335	$ 340
Investment management costs	9	8
Actuarial fees	1	4
	$ 345	$ 352

General administration costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance, and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $134 per member (2004 $135 per member).

NOTE 5 ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2005 using revised financial assumptions.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were as follows:

	2005 Extrapolation	2002 Valuation and 2004 Extrapolation
	%	
Asset real rate of return	2.25	3.0
Inflation rate	2.75	3.0
Investment rate of return	5.0	6.0
Mortality rate	1994 Uninsured Pensioner Table	

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Note 5 (continued)

The following statement shows the principal components of the change in the actuarial value of accrued pension benefits.

	2005	2004
	($ thousands)	
Actuarial value of accrued pension benefits at beginning of year	$ 661,418	$ 680,472
Interest accrued on benefits	37,944	39,084
Net benefits paid	(58,033)	(58,138)
Changes in actuarial assumptions	43,070	-
Actuarial value of accrued pension benefits at end of year	$ 684,399	$ 661,418

As required by the *Public Sector Pension Plans Act*, an actuarial funding valuation of the Plan as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as experience gains or losses in 2006.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation at December 31, 2005:

	Sensitivities	
	Changes in Assumptions %	**Increase in Plan Deficiency ($ million)**
Inflation rate increase holding the nominal investment return assumption constant	1.0%	$ 40
Investment rate of return decrease holding the inflation rate assumption constant	(1.0%)	59

NOTE 6 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Management Employees Pension Board.

PUBLIC SERVICE PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR'S REPORT

To the Minister of Finance and the Public Service Pension Board

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Public Service Pension Plan (the Plan) as at December 31, 2005 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2005 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 9, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

PUBLIC SERVICE PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND LIABILITY FOR ACCRUED BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,030,889	$ 4,465,432
Contributions receivable (Note 6)	17,209	15,185
Accrued investment income and accounts receivable	1,871	1,892
	5,049,969	4,482,509
Liabilities		
Accounts payable	2,673	1,577
Net assets available for benefits	5,047,296	4,480,932
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	5,235,000	4,931,000
Deficiency	$ (187,704)	$ (450,068)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in assets		
Net investment income (Note 8)	$ 547,584	$ 395,179
Contributions		
Current and optional service		
Employers	114,390	104,404
Employees	116,236	106,816
Transfers from other plans	5,374	4,302
	783,584	610,701
Decrease in assets		
Pension benefits	178,762	170,971
Refunds to members	29,270	18,770
Transfers to other plans	2,113	3,770
Plan expenses (Note 9)	7,075	7,045
	217,220	200,556
Increase in net assets	566,364	410,145
Net assets available for benefits at beginning of year	4,480,932	4,070,787
Net assets available for benefits at end of year	$ 5,047,296	$ 4,480,932

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

STATEMENT OF CHANGES IN LIABILITY FOR ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 344,000	$ 325,000
Benefits earned	184,000	168,000
	528,000	493,000
Decrease in liability for accrued benefits		
Benefits paid	210,000	194,000
Net experience gains	14,000	23,000
	224,000	217,000
Net increase in liability for accrued benefits	304,000	276,000
Liability for accrued benefits at beginning of year	4,931,000	4,655,000
Liability for accrued benefits at end of year	$ 5,235,000	$ 4,931,000

STATEMENT OF CHANGES OF DEFICIENCY

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Deficiency at beginning of year	$ (450,068)	$ (584,213)
Increase in net assets available for benefits	566,364	410,145
Net increase in liability for accrued benefits	(304,000)	(276,000)
Deficiency at end of year (Note 10)	$ (187,704)	$ (450,068)

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 368/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta,approved provincial agencies and public bodies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0208769.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 10) are funded equally by employers and employees at rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2005 were unchanged at 6.17% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 8.81% of the excess for employees. Employers provide matching contributions. The rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

(d) Termination Benefits

Members who terminate with at least two years of service and are not immediately entitled to a pension may receive the commuted value of their pension for all service, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest.

(e) Disability Benefits

Unreduced pensions are payable to members who become totally disabled and have at least two years of service. Reduced pensions are payable to members who become partially disabled and have at least two years of service.

PUBLIC SERVICE PENSION PLAN

Note 1 (continued)

(f) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

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

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

PUBLIC SERVICE PENSION PLAN

Note 2 (continued)

The fair value of alternative investments including investments in partnership interests, private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index future contracts are based on quoted market prices.

PUBLIC SERVICE PENSION PLAN

Note 2 (continued)

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

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's liability for accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation of the Plan's liability for accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's liability for accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

PUBLIC SERVICE PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULE A TO E)

	2005		2004	
	Fair Value		Fair Value	
	$ (thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 46,273	0.9	$ 76,956	1.7
Canadian Dollar Public Bond Pool (b)	1,083,152	21.6	993,226	22.2
Real rate of return bonds (c)	290,580	5.8	256,764	5.8
Private Mortgage Pool (d)	196,753	3.9	170,039	3.8
External Managers Currency Alpha Pool (e)	6,728	0.1	-	-
Total fixed income securities	1,623,486	32.3	1,496,985	33.5
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	424,626	8.4	269,958	6.0
Canadian Pooled Equities Fund (g)	256,721	5.1	136,179	3.1
External Managers				
Canadian Equity Enhanced Index Pool (h)	121,381	2.4	-	-
Canadian Large Cap Equity Pool (i)	100,121	2.0	378,856	8.5
Canadian Small Cap Equity Pool	-	-	70,020	1.6
Canadian Multi-Cap Pool (j)	63,479	1.3	-	-
Growing Equity Income Pool (k)	55,697	1.1	-	-
Overlay US Equity Pool (o)	(54,895)	(1.1)	-	-
	967,130	19.2	855,013	19.2
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (l)	635,768	12.6	510,609	11.4
External Managers				
US Mid/Small Cap Equity Pool (m)	118,787	2.4	64,024	1.4
US Large Cap Equity Pool	-	-	333,901	7.5
S&P 500 Pooled Index Fund (l)	100,300	2.0	865	-
Portable Alpha US Equity Pool (n)	71,958	1.4	-	-
Overlay US Equity Pool (o)	68,575	1.4	-	-
Growing Equity Income Pool (k)	13,968	0.3	-	-
	1,009,356	20.1	909,399	20.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	840,567	16.7	-	-
EAFE Core and Plus Equity Pools	-	-	749,671	16.8
Emerging Markets Equity Pool (q)	61,868	1.2	47,421	1.1
EAFE Structured Equity Pooled Fund (r)	129,030	2.6	125,722	2.8
	1,031,465	20.5	922,814	20.7
Alternative Investments - Equities				
Private Equity 2002 , Private Equity 2004 and Private Income Pool (s)	41,663	0.8	22,572	0.5
Timberland Pool (t)	21,350	0.4	-	-
	63,013	1.2	22,572	0.5
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	336,439	6.7	258,649	5.8
Total equities	3,407,403	67.7	2,968,447	66.5
Total investments	$5,030,889	100.0	$4,465,432	100.0

PUBLIC SERVICE PENSION PLAN

Note 3 (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the pool a modest amount of cash to minimize rebalancing of cash flows in or out of the pool when the forward foreign exchange contracts settle.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(h) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(i) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(j) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

PUBLIC SERVICE PENSION PLAN

Note 3 (continued)

(k) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

(l) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(m) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(n) The Portable Alpha US Equity Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(o) The Overlay US Equity Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. The pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contract. Cash and short-term securities held by the pool support approximately 5% to 10% of the pool's notional exposure in Canadian and United States equity index futures contracts.

(p) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(q) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(r) The EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The pooled fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

PUBLIC SERVICE PENSION PLAN

Note 3 (continued)

(s) The Private Equity Pool 2002 and Private Equity Pool 2004 are managed with the objective of providing investment returns comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool is managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to provide high current income.

(t) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The pool invests in a partnership interest in forestry land in British Columbia.

(u) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediary companies which have issued to the pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market..

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term policy asset mix of 34.5% fixed income instruments and 65.5% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

PUBLIC SERVICE PENSION PLAN

Note 5 (continued)

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and net fair value of derivative contracts held by pooled funds at December 31, 2005:

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	79	21	-	$ 1,218,829	$26,686	$ 782,631	$31,381
Interest rate swap contracts	51	33	16	382,106	6,596	303,180	(12,690)
Cross-currency interest rate swap contracts	20	32	48	315,836	18,858	305,571	(19,931)
Equity index futures contracts	100	-	-	271,099	4,254	18,210	2,080
Forward foreign exchange contracts	100	-	-	270,228	(337)	115,135	154
Credit default swap contracts	15	16	69	130,472	1,229	87,180	309
Bond index swap contracts	100	-	-	60,147	1,647	19,363	376
				$ 2,648,717	$58,933	$ 1,631,270	$ 1,679

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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

PUBLIC SERVICE PENSION PLAN

NOTE 6 CONTRIBUTIONS RECEIVABLE

	2005	2004
	($ thousands)	
Employers	$ 8,589	$ 7,590
Employees	8,620	7,595
	$ 17,209	$ 15,185

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2005.

Actuarial valuations were determined using the projected benefit method, based on service. The assumptions used in the valuations and extrapolations were developed as the best estimates of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	2005 Extrapolation	2002 Valuation and 2004 Extrapolation
	%	
Investment rate of return	7.00	7.00
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost of living increase as a percentage of Alberta Consumer Price Index	60.00	60.00

* In addition to merit and promotion.

As required by the *Public Sector Pension Plans Act*, an actuarial funding valuation of the Plan as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2006.

PUBLIC SERVICE PENSION PLAN

Note 7 (continued)

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2005:

	Changes in Assumptions %	Increase in Plan Deficiency ($ millions)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 339	0.55%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	287	1.07%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	840	2.60%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2002 valuation was 10.46%.

NOTE 8 NET INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	2005	2004
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 376,594	$ 244,565
Interest income	122,531	105,326
Dividend income	40,320	38,327
Real estate operating income	15,349	13,611
Securities lending income	1,401	1,081
Pooled funds management and associated custodial fees	(8,611)	(7,731)
	$ 547,584	$ 395,179

PUBLIC SERVICE PENSION PLAN

Note 8 (continued)

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 125,249	$ 128,371
Canadian Equities	207,533	116,706
Foreign Equities		
United States	15,448	24,778
Non-North American	119,225	100,411
Alternative Investments - Equities	3,394	86
Real Estate Equities	76,735	24,827
	$ 547,584	$ 395,179

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	12.2%	7.4%	6.9%
Policy Benchmark**	11.0%	6.7%	6.5%

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

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

NOTE 9 PLAN EXPENSE

	2005	2004
	($ thousands)	
General administration costs	$ 5,794	$ 5,780
Investment management costs	725	762
Board costs	342	338
Actuarial fees	75	95
Other professional fees	139	70
	$ 7,075	$ 7,045

General administration and Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 8).

In 2005, total Plan expenses of $7,075,000 amounted to $106 per member (2004 $109 per member).

PUBLIC SERVICE PENSION PLAN

NOTE 10 FUNDING VALUATION AND EXTRAPOLATION

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding extrapolation purposes amounted to $4,853 million at December 31, 2005 (2004 $4,303 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency of $435 million as determined by an actuarial funding valuation as at December 31, 2002 is funded by a special payment of 2.76% of pensionable earnings shared equally between employees and employers until December 31, 2017 as required to eliminate the actuarial unfunded liability on or before that date. The special payment is included in the rates in effect at December 31, 2005 (see Note 1(b)).

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Public Service Pension Board.

PUBLIC SERVICE PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2005

	Plan's Share 2005	2004
	($ thousands)	
Deposits and short-term securities	$ 65,269	$ 83,082
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	583,721	533,482
Provincial		
Alberta, direct and guaranteed	7,148	627
Other, direct and guaranteed	225,706	240,187
Municipal	6,073	13,020
Corporate	444,221	370,530
Private		
Corporate	277,580	252,037
	1,544,449	1,409,883
Receivable from sale of investments and accrued investment income	13,926	12,124
Liabilities for investment purchases	(158)	(8,104)
	13,768	4,020
	$ 1,623,486	$ 1,496,985

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 3.96% per annum (2004 4.00% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount:

	2005	2004
	%	
under 1 year	2	2
1 to 5 years	27	31
6 to 10 years	30	28
11 to 20 years	17	15
over 20 years	24	24
	100	100

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2005

	Plan's Share	
	2005	**2004**
	($ thousands)	
Deposits and short-term securities	$ 6,735	$ 8,265
Public equities (a) (b)		
Consumer discretionary	54,297	66,629
Consumer staples	33,193	41,755
Energy	248,487	148,903
Financials	294,913	257,268
Health care	10,765	16,740
Industrials	55,026	66,917
Information technology	39,265	48,910
Materials	135,328	149,349
Telecommunication services	47,742	36,240
Utilities	9,831	5,159
	928,847	837,870
Passive index	17,248	1,119
	946,095	838,989
Receivable from sale of investments and accrued investment income	26,087	8,269
Liabilities for investment purchases	(11,787)	(510)
	14,300	7,759
	$ 967,130	$ 855,013

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $396,281,000 (2004 $192,175,000) which were used as underlying securities to support the notional amount of Canadian equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 20,577	$ 28,819
Public equities (a) (b)		
Consumer discretionary	106,721	138,892
Consumer staples	85,593	76,969
Energy	88,431	61,009
Financials	210,548	176,009
Health care	130,466	109,714
Industrials	115,496	113,481
Information technology	146,101	125,138
Materials	34,991	31,482
Telecommunication services	26,118	23,658
Utilities	33,850	25,038
	978,315	881,390
Passive index	741	-
	979,056	881,390
Receivable from sale of investments and accrued investment income	26,781	5,638
Liabilities for investment purchases	(17,058)	(6,448)
	9,723	(810)
	$ 1,009,356	$ 909,399

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $792,189,000 (2004 $489,975,000), which were used as underlying securities to support the notional amount of US equity index swaps contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 3,691	$ 17,878
Public equities (a) (b)		
Consumer discretionary	116,678	125,995
Consumer staples	67,688	51,246
Energy	75,463	76,149
Financials	277,221	245,104
Health care	79,445	53,531
Industrials	126,929	99,824
Information technology	67,106	43,420
Materials	77,983	72,455
Telecommunication services	64,015	77,277
Utilities	41,375	35,146
	993,903	880,147
Passive index	30,731	19,938
Receivable from sale of investments and accrued investment income	10,634	8,854
Liabilities for investment purchases	(7,494)	(4,003)
	3,140	4,851
	$ 1,031,465	$ 922,814

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $138,487,000 (2004 $118,691,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of stock exchange on which stocks were purchased:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Japan	$ 221,878	$ 157,555
United Kingdom	198,950	196,246
France	101,753	79,874
Switzerland	74,790	59,804
Germany	58,725	61,292
Netherlands	53,369	48,797
Australia	38,235	40,819
Italy	31,177	36,663
Spain	27,000	21,770
Korea	23,964	15,851
Other	164,062	161,476
	$ 993,903	$ 880,147

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share	
	2005	2004
	($ thousands)	
Deposits and short-term securities	$ 43	$ 27
Real estate (a)		
Office	167,681	129,276
Retail	111,835	92,834
Industrial	33,431	20,392
Residential	15,343	12,529
	328,290	255,031
Passive index	7,403	3,223
Receivable from sale of investments and accrued investment income	703	368
	$ 336,439	$ 258,649

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2005	2004
	($ thousands)	
Ontario	$ 203,629	$ 165,328
Alberta	89,186	56,540
Quebec	29,298	28,724
British Columbia	6,177	4,439
	$ 328,290	$ 255,031

SPECIAL FORCES PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan (the Plan) as at December 31, 2005, and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2005 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 17, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

SPECIAL FORCES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,288,233	$ 1,154,290
Accounts receivable (Note 6)	2,782	2,379
	1,291,015	1,156,669
Liabilities		
Accounts payable	25	17
Net assets available for benefits	1,290,990	1,156,652
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,353,848	1,346,949
Indexing Fund	4,485	18,056
	1,358,333	1,365,005
Deficiency		
Plan Fund *	(67,343)	(208,353)
Indexing Fund	-	-
	$ (67,343)	$ (208,353)

* The deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $79,799,000 (2004 $150,355,000) and a post-1991 surplus of $12,456,000 (2004 deficiency of $57,998,000).

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005			2004
	Plan Fund	Indexing Fund	Total	Total
	($ thousands)			
Increase in assets				
Net investment income (Note 8)	$ 137,586	$ 2,343	$ 139,929	$ 100,599
Contributions (Note 9)	48,105	3,346	51,451	45,559
	185,691	5,689	191,380	146,158
Decrease in assets				
Pension benefits	53,370	-	53,370	49,201
Refunds and transfers	2,299	-	2,299	811
Administration expenses (Note 10)	1,373	-	1,373	1,326
	57,042	-	57,042	51,338
Increase in net assets before transfer	128,649	5,689	134,338	94,820
Transfer from the Indexing Fund to the Plan Fund (Note 12)	19,260	(19,260)	-	-
Increase (decrease) in net assets after transfer	147,909	(13,571)	134,338	94,820
Net assets available for benefits at beginning of year	1,138,596	18,056	1,156,652	1,061,832
Net assets available for benefits at end of year	$ 1,286,505	$ 4,485	$ 1,290,990	$ 1,156,652

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005			2004
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$ 52,858	$ 36,585	$ 89,443	$ 88,773
Benefits earned	350	36,842	37,192	35,339
Cost-of-living indexing adjustments and interest	(3,209)	3,692	483	1,846
	49,999	77,119	127,118	125,958
Decrease in accrued benefits				
Benefits, transfers and interest	45,029	10,640	55,669	50,012
Net experience gains	31,517	38,946	70,463	-
Changes in actuarial assumptions	4,251	3,407	7,658	-
	80,797	52,993	133,790	50,012
Net (decrease) increase in accrued benefits	(30,798)	24,126	(6,672)	75,946
Accrued benefits at beginning of year	812,850	552,155	1,365,005	1,289,059
Accrued benefits at end of year	$ 782,052	$ 576,281	$ 1,358,333	$ 1,365,005

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2005

	2005			2004
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
(Deficiency) at beginning of year	$ (150,355)	$ (57,998)	$ (208,353)	$ (227,227)
Increase in net assets available for benefits	39,758	94,580	134,338	94,820
Net decrease (increase) in accrued benefits	30,798	(24,126)	6,672	(75,946)
(Deficiency) Surplus at end of year (Note 13)	$ (79,799)	$ 12,456	$ (67,343)	$ (208,353)

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375.

(b) Funding Policy

Plan Fund

Current service costs and the Plan's actuarial deficiency in respect of service after 1991 are funded by employer and employee contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2005 were unchanged at 9.61% of pensionable salary for employers and 8.51% for employees. The rates are reviewed at least once every three years by the Special Forces Pension Board (the Board) based on recommendations of the Plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2005 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund

Benefit payment increases for post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) are funded by contributions to the Indexing Fund from employers and employees. The rates in effect at December 31, 2005 were 0.75% of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Members are entitled to a pension at retirement who have attained age 65, or have attained age 55 and have at

SPECIAL FORCES PENSION PLAN

Note 1 (continued)

least five years of service, or have at least 25 years of service. Pensions will be reduced at the age of 65 by 0.6% of the average Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) times years of pensionable service. The YMPE is averaged over the same five-year period as the average salary.

For a member who has a pension partner at retirement, the normal form of pension is a Joint and Last Survivor, with 65% continuing to the pension partner if he or she survives the member.

For a member who does not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. Post-1991 cost-of-living adjustments are funded by the Indexing Fund at rates determined by the Board.

SPECIAL FORCES PENSION PLAN

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

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

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative investments including investments in partnership interests, private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

SPECIAL FORCES PENSION PLAN

Note 2 (continued)

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

SPECIAL FORCES PENSION PLAN

Note 2 (continued)

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

SPECIAL FORCES PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2005		2004	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 5,390	0.4	$ 8,803	0.8
Canadian Dollar Public Bond Pool (b)	317,704	24.7	346,426	30.0
Private Mortgage Pool (c)	63,331	4.9	59,298	5.1
Canadian Long Term Government Bond Pool (b)	31,700	2.5	-	-
Real rate of return bonds (d)	22,468	1.7	-	-
External Managers Currency Alpha Pool (e)	1,888	0.2	-	-
Total fixed income securities	442,481	34.4	414,527	35.9
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	95,880	7.4	76,780	6.6
External Managers				
Canadian Small Cap Equity Pool (g)	36,675	2.8	31,572	2.7
Canadian Large Cap Equity Pool (g)	20,208	1.6	95,328	8.3
Canadian Equity Enhanced Index Pool (h)	27,282	2.1	-	-
Canadian Pooled Equities Fund (i)	57,733	4.5	32,354	2.8
Canadian Multi-Cap Pool (j)	15,802	1.2	-	-
Growing Equity Income Pool (k)	12,705	1.0	-	-
Private Equity Pool	1,207	0.1	1,301	0.1
Overlay US Equity Pool (o)	(14,183)	(1.1)	-	-
	253,309	19.6	237,335	20.5
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (l)	120,948	9.4	113,279	9.8
S&P 500 Pooled Index Fund (l)	41,692	3.2	11,465	1.0
External Managers				
US Mid/Small Cap Equity Pool (m)	36,316	2.8	33,140	2.9
US Large Cap Equity Pool	-	-	52,950	4.6
Portable Alpha US Equity Pool (n)	18,764	1.5	-	-
Overlay US Equity Pool (o)	17,717	1.4	-	-
Growing Equity Income Pool (k)	3,186	0.2	-	-
	238,623	18.5	210,834	18.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	194,599	15.1	-	-
Emerging Markets Equity Pool (q)	16,166	1.3	12,370	1.1
EAFE Passive Equity Pool (r)	757	0.1	687	0.1
EAFE Core and Plus Equity Pools	-	-	174,223	15.1
EAFE Structured Equity Pooled Fund (r)	44,203	3.4	44,646	3.9
	255,725	19.9	231,926	20.2
Alternative Investments - Equities				
Private Income Pool (s)	6,846	0.5	3,875	0.3
Timberland Pool (t)	5,536	0.4	-	-
	12,382	0.9	3,875	0.3
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	85,713	6.7	55,793	4.8
Total equities	845,752	65.6	739,763	64.1
Total investments	$1,288,233	100.0	$1,154,290	100.0

SPECIAL FORCES PENSION PLAN

Note 3 (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool (CDPB) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Universe Bond Index and the Scotia Capital Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CDPB portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the pool a modest amount of cash to minimize rebalancing of cash flows in or out of the pool when the forward foreign exchange contracts settle.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over the long term while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(h) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(i) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

SPECIAL FORCES PENSION PLAN

Note 3 (continued)

(j) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

(k) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

(l) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(m) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P Russell 2500 Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(n) The Portable Alpha US Equity Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(o) The Overlay US Equity Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. The pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contract. Cash and short-term securities held by the pool support approximately 5% to 10% of the pool's notional exposure in Canadian and United States equity index futures contracts.

(p) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(q) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

SPECIAL FORCES PENSION PLAN

Note 3 (continued)

(r) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(s) The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to yield high current income.

(t) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The pool invests in a partnership interest in forestry land in British Columbia.

(u) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediary companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term benchmark policy asset mix of 31% fixed income instruments and 69% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

SPECIAL FORCES PENSION PLAN

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2005:

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	79	21	-	$ 279,467	$ 6,416	$ 204,961	$ 8,294
Interest rate swap contracts	50	34	16	88,946	1,670	82,567	(3,325)
Cross-currency interest rate swap contracts	19	31	50	75,832	4,843	84,880	(4,913)
Forward foreign exchange contracts	100	-	-	71,504	(155)	27,781	111
Equity index futures contracts	100	-	-	66,479	951	4,264	484
Credit default swap contracts	15	16	69	30,561	287	22,967	95
Bond index swap contracts	100	-	-	16,492	403	6,753	131
				$ 629,281	$ 14,415	$ 434,173	$ 877

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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

SPECIAL FORCES PENSION PLAN

NOTE 6 ACCOUNTS RECEIVABLE

	2005	2004
	($ thousands)	
Contributions receivable		
Employers	$ 1,236	$ 1,086
Employees	1,135	1,001
Province of Alberta	224	202
	2,595	2,289
Receivable from Alberta Pensions Administration Corporation	137	90
Accrued investment income	50	-
	$ 2,782	$ 2,379

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Hewitt and Associates and was then extrapolated to December 31, 2005. The 2004 valuation was completed after the financial statements of the Plan for 2004 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2004 are accounted for as net experience gains in 2005.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	December 31	
	2005 Extrapolation	2004 Valuation
	%	
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost-of-living increase as a percent of Alberta Consumer Price Index	60	60

* In addition to merit and promotion.

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

SPECIAL FORCES PENSION PLAN

Note 7 (continued)

Based on the information provided above, the following table summarizes the fair value of net assets, accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2005:

	2005			2004
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 702,253	$ 584,252	$1,286,505	$1,138,596
Plan Fund accrued benefits	782,052	571,796	1,353,848	1,346,949
Plan Fund Deficiency (Notes 12)	$ (79,799)	$ 12,456	$ (67,343)	$ (208,353)

As at December 31, 2005, the Indexing Fund held investments of $4,485,000 (2004 $18,056,000) with offsetting accrued benefits of the same amount.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2005:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 78	0.0% **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	35	1.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	195	3.8%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 16.2%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

SPECIAL FORCES PENSION PLAN

NOTE 8 NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2005	2004
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 94,993	$ 59,387
Interest income	32,661	30,446
Dividend income	10,523	9,319
Real estate operating income	3,523	2,996
Securities lending income	336	260
Pooled funds management and associated custodial fees	(2,107)	(1,809)
	$ 139,929	$ 100,599

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 31,861	$ 30,397
Canadian Equities	55,705	31,970
Foreign Equities		
United States	3,853	7,322
Non-North American	29,881	25,309
Alternative Investments - Equities	692	118
Real Estate Equities	17,937	5,483
	$ 139,929	$ 100,599

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	12.1%	6.9%	7.0%
Policy Benchmark**	10.7%	6.1%	6.5%

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

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

SPECIAL FORCES PENSION PLAN

NOTE 9 CONTRIBUTIONS

	2005	2004
	($ thousands)	
Current and optional service		
Employers	$ 22,214	$ 19,594
Employees	20,557	18,089
Unfunded liability		
Employers	2,721	2,392
Employees	2,721	2,392
Province of Alberta	2,788	2,471
Transfers from other plans	450	621
	$ 51,451	$ 45,559

NOTE 10 ADMINISTRATION EXPENSES

	2005	2004
	($ thousands)	
General administration costs	$ 1,042	$ 1,009
Investment management costs	237	220
Actuarial fees	94	97
	$ 1,373	$ 1,326

Total administration expenses amounted to $279 per member (2004 $283 per member).

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 8).

NOTE 11 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective March 1, 2005:		
Up to 4 hours	$ 176	$ 131
4 to 8 hours	300	217
Over 8 hours	478	340

	2005	2004
During 2005, the following amounts were paid:		
Remuneration		
Chair	$ 2,730	$ 7,640
Members (5)*	14,765	28,206
Travel expenses		
Chair	8,997	9,510
Members (5)	22,588	28,109

* Crown representative nominated by the Government of Alberta received no remuneration.

SPECIAL FORCES PENSION PLAN

NOTE 12 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

Transfer from the Indexing Fund to the Plan Fund is determined by the plan's actuary to finance the payment of cost-of-living increases by the Plan Fund for pensionable service from 1999 to 2000 [see Note 1(i)].

NOTE 13 FUNDING VALUATION AND EXTRAPOLATION

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $1,228 million at December 31, 2005 (2004 $1,109 million).

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by an actuarial funding valuation at December 31, 2004 is financed by a special payment of 1.86% of pensionable salary shared equally between employees and employers effective January 1, 2005 and continuing for 15 years from the date of valuation until December 31, 2019. The special payment is included in the rates in effect at December 31, 2005 (see Note 1(b)).

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Board.

SPECIAL FORCES PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2005

	Plan's Share	
	2005	2004
	($ thousands)	
Deposits and short-term securities	$ 10,899	$ 10,939
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	119,614	96,516
Provincial		
Alberta, direct and guaranteed	2,097	219
Other, direct and guaranteed	84,556	83,774
Municipal	1,940	4,541
Corporate	132,373	129,237
Private		
Corporate	86,700	87,899
	427,280	402,186
Receivable from sale of investments and accrued investment income	4,346	4,229
Liabilities for investment purchases	(44)	(2,827)
	4,302	1,402
	$ 442,481	$ 414,527

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 4.38% per annum (2004 4.44% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount.

	2005	2004
	%	
under 1 year	2	3
1 to 5 years	27	36
6 to 10 years	32	32
11 to 20 years	14	13
over 20 years	25	16
	100	100

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 2,000	$ 2,296
Public equities (a) (b)		
Consumer discretionary	15,764	19,398
Consumer staples	9,406	11,980
Energy	64,093	41,215
Financials	70,176	68,523
Health care	2,733	4,696
Industrials	19,787	20,459
Information technology	10,864	13,759
Materials	35,496	39,931
Telecommunication services	10,813	9,679
Utilities	2,541	1,452
	241,673	231,092
Passive index	4,951	505
	246,624	231,597
Private Equity Pool	1,207	1,301
Receivable from sale of investments and accrued investment income	6,247	2,293
Liabilities for investment purchases	(2,769)	(152)
	3,478	2,141
	$ 253,309	$ 237,335

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $92,292,000 (2004 $54,603,000) which were used as underlying securities to support the notional amount of Canadian equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 5,561	$ 6,246
Public equities (a) (b)		
Consumer discretionary	25,336	30,407
Consumer staples	19,646	16,964
Energy	20,763	14,566
Financials	49,420	40,759
Health care	30,934	25,494
Industrials	27,605	26,699
Information technology	34,553	29,933
Materials	8,723	8,385
Telecommunication services	5,967	5,373
Utilities	8,035	6,008
	230,982	204,588
Passive index	227	-
	231,209	204,588
Receivable from sale of investments and accrued investment income	5,683	1,476
Liabilities for investment purchases	(3,830)	(1,476)
	1,853	-
	$ 238,623	$ 210,834

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $168,881,000 (2004 $112,473,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(a) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 1,202	$ 4,084
Public equities (a) (b)		
Consumer discretionary	28,970	31,361
Consumer staples	16,794	13,109
Energy	18,739	19,091
Financials	68,562	61,455
Health care	19,534	13,733
Industrials	31,058	24,650
Information technology	16,450	10,966
Materials	19,363	17,920
Telecommunication services	15,683	19,340
Utilities	10,348	9,020
	245,501	220,645
Passive index	8,030	5,201
Receivable from sale of investments and accrued investment income	3,258	2,930
Liabilities for investment purchases	(2,266)	(934)
	992	1,996
	$ 255,725	$ 231,926

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $45,812,000 (2004 $42,149,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of stock exchange on which stocks were purchased:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Japan	$ 55,087	$ 39,699
United Kingdom	49,633	49,615
France	24,899	20,099
Switzerland	18,336	14,898
Germany	14,577	15,364
Netherlands	13,023	12,220
Australia	9,611	10,392
Italy	7,767	9,174
Spain	6,787	5,720
Korea	5,721	3,756
Other	40,060	39,708
	$ 245,501	$ 220,645

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 11	$ 6
Real estate (a)		
Office	42,719	27,886
Retail	28,492	20,026
Industrial	8,517	4,398
Residential	3,909	2,703
	83,637	55,013
Passive index	1,886	695
Receivable from sale of investments and accrued investment income	179	79
	$ 85,713	$ 55,793

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Ontario	$ 51,878	$ 35,663
Alberta	22,721	12,196
Quebec	7,464	6,196
British Columbia	1,574	958
	$ 83,637	$ 55,013

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

DECEMBER 31, 2005

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits of the Supplementary Retirement Plan for Public Service Managers (the Plan) as at December 31, 2005 and the Statement of Changes in Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits of the Plan as at December 31, 2005 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 26, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 5,975	$ 4,196
Refundable income tax (Note 1(f) and Note 6)	7,431	5,405
Contributions receivable	20	15
	13,426	9,616
Liabilities		
Actuarial value of accrued benefits (Note 7)	25,857	19,434
Income tax payable	266	193
Other payables	115	101
	26,238	19,728
Excess of liabilities over assets	(12,812)	(10,112)
SRP Reserve Fund (Note 8)	22,830	19,516
Net assets available for benefits	$ 10,018	$ 9,404

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in assets		
Contributions		
Employees	$ 1,974	$ 1,643
Employers	1,974	1,643
Net investment income (Note 9)	468	263
	4,416	3,549
Decrease in assets		
Increase in actuarial value of accrued benefits	(6,423)	(5,273)
Benefits and refunds	(230)	(79)
Administration expenses (Note 10)	(463)	(395)
	(7,116)	(5,747)
Increase in the SRP Reserve Fund (Note 8)	3,314	2,290
Increase in net assets	614	92
Net assets available for benefits at beginning of year	9,404	9,312
Net assets available for benefits at end of year	$ 10,018	$ 9,404

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/99 as amended by 04/99).

(a) General

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the *maximum pensionable salary limit* under the federal *Income Tax Act*. The Plan is supplementary to the MEPP. Services under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who have attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 8) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2005 were 10.5% (2004 9.5%) of pensionable salary in excess of the *maximum pensionable salary limit* for eligible employees and designated employers. An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the Minister of Finance.

(c) Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the maximum pensionable salary limit under the *Income Tax Act* for each year of pensionable service after July 1, 1999, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan follow those of the MEPP.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Note 1 (continued)

(d) Guarantee

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

(e) Surplus Plan Assets

The Government has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Government.

(f) Income Taxes

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefits payments are made to plan members and beneficiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

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

Due to uncertainties about the timing of benefits and refunds payments, it is not practicable to estimate the fair value of refundable income tax. Refundable income tax is carried at cost.

The fair values of deposits, other receivables, accrued investment income and payables are estimated to approximate their book values.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Note 2 (continued)

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(e) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the note describing changes in the actuarial value of accrued benefits in the year when actual results are known (see Note 7(a)).

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 3 PORTFOLIO INVESTMENTS

	2005		2004	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 1,955	32.7	$ 1,644	39.2
Canadian Dollar Public Bond Pool (b)	2,552	42.7	1,509	36.0
Total fixed income securities	4,507	75.4	3,153	75.2
Equities (Schedule B)				
Canadian Equities				
Canadian Pooled Equities Fund (c)	1,147	19.2	808	19.2
Growing Equity Income Pool (d)	257	4.3	214	5.1
	1,404	23.5	1,022	24.3
United States Equities				
Growing Equity Income Pool (d)	64	1.1	21	0.5
Total equities	1,468	24.6	1,043	24.8
Total investments	$ 5,975	100.0	$ 4,196	100.0

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(d) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Note 4 (continued)

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Minister has established a long-term policy asset mix of 43% fixed income instruments and 57% equities to the combined investments held by the Plan and the SRP Reserve Fund (see Note 8). Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity.

Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Note 5 (continued)

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2005:

	2005					2004	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
		%			($ thousands)		
Cross-currency interest rate swap contracts	13	8	79	$ 127	$ 5	$ 132	$ (11)
Bond index swap contracts	100	-	-	94	1	29	1
Forward foreign exchange contracts	100	-	-	80	1	31	1
Credit default swap contracts	-	5	95	52	-	9	-
Equity index futures contracts	100	-	-	15	2	18	1
Interest rate swap contracts	-	-	-	-	-	4	-
				$ 368	$ 9	$ 223	$ (8)

(a) The method of determining fair value of derivative contracts is described in Note 2 (d).

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

NOTE 6 REFUNDABLE INCOME TAX

	2005	2004
	($ thousands)	
Refundable income tax at beginning of year	$ 5,405	$ 3,707
Tax on employees and employers contributions received	1,972	1,638
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	54	60
Refundable income tax at end of year	$ 7,431	$ 5,405

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 7 ACTUARIAL VALUE OF ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2005. Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

The major assumptions used were:

	2004 and 2005 Extrapolation	2002 Valuation
	%	
Discount rate *	4.50	4.50
Inflation rate	3.00	3.00
Investment rate of return	6.00	6.00
Salary escalation rate **	3.50	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

* Discount rate is on an after-tax basis.
** In addition to merit and promotion which averages 1.5%.

The following table shows the principal components of the change in the actuarial value of accrued benefits:

	2005	2004
	($ thousands)	
Actuarial value of accrued benefits at beginning of year	$ 19,434	$ 14,161
Interest accrued on benefits	997	741
Benefits earned	5,656	4,707
Impact of changes in the *maximum pensionable salary limit*	-	(96)
Benefits and refunds	(230)	(79)
Actuarial value of accrued benefits at end of year	$ 25,857	$ 19,434

In accordance with Treasury Board Directive 01/99, an actuarial funding valuation of the Plan as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2006.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Note 7 (continued)

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2005:

		Sensitivities	
	Changes in Assumptions %	Decrease in Net Assets ($ millions)	Increase in Benefits Earned ($ millions)
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 2.0	$ 0.4
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	5.8	1.3
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	5.7	1.4

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 7).

NOTE 8 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1 (d)). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the Minister of Finance. The rate in effect at December 31, 2005, as recommended by the Plan's actuary, was 5.8% (2004 6.8%) of pensionable salary of eligible employees that was in excess of the maximum pensionable salary limit under the Income Tax Act. The actuary has advised that any impairment of the Plan's surplus assets will result in an increase in the 5.8% employer contribution rate to the SRP Reserve Fund.

The SRP Reserve Fund is a regulated fund established and administered by the Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2005, the SRP Reserve Fund had net assets with fair value totalling $22,830,000 (2004 $19,516,000), comprising $22,724,000 (2004 $19,427,000) in portfolio investments and $106,000 (2004 $89,000) in receivables. The increase during the year of $3,314,000 $ (2004 $2,290,000) is attributed to contributions from employers of $1,123,000 (2004 $1,162,000) and investment income of $2,191,000 (2004 $1,128,000).

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 9 NET INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	2005	2004
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 294	$ 141
Interest income	153	105
Dividend income	23	18
Pool funds management and associated custodial fees	(2)	(1)
	$ 468	$ 263

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 173	$ 130
Equities	295	133
	$ 468	$ 263

NOTE 10 ADMINISTRATION EXPENSES

Administration expenses including investment management costs in the amount of $21,000 (2004 $11,000) were charged to the Plan on a cost-recovery basis.

Administration expenses amounted to $375 (2004 $373) per member.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 1,984	$ 1,651
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	691	421
Provincial		
Alberta, direct and guaranteed	17	1
Other, direct and guaranteed	506	352
Municipal	14	20
Corporate	1,047	562
Private		
Corporate	218	142
	2,493	1,498
Receivable from sale of investments and accrued investment income	30	16
Liabilities for investment purchases	-	(12)
	30	4
	$ 4,507	$ 3,153

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 4.47% per annum (2004 4.31% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount:

	2005	2004
	%	%
under 1 year	3	2
1 to 5 years	34	39
6 to 10 years	31	31
11 to 20 years	12	13
over 20 years	20	15
	100	100

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

SCHEDULE OF INVESTMENTS IN EQUITIES

Schedule B

December 31, 2005

	Plan's Share	
	2005	**2004**
	($ thousands)	
Deposits and short-term securities	$ 15	$ 3
Canadian public equities (a) (b)		
Consumer discretionary	92	62
Consumer staples	49	48
Energy	386	198
Financials	441	345
Health care	13	16
Industrials	94	72
Information technology	56	53
Materials	196	155
Telecommunication services	60	52
Utilities	-	10
	1,387	1,011
United States public equities (b)		
Consumer discretionary	3	-
Consumer staples	11	-
Financials	40	15
Industrials	6	6
Utilities	4	-
	64	21
Receivable from sale of investments and accrued investment income	7	8
Accounts payable and accrued liabilities	(5)	-
	2	8
	$ 1,468	$ 1,043

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $15,000 (2004 $18,000), which were used as underlying securities to support Canadian equity index futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's.

ALPHABETICAL LIST OF ENTITIES

ALBERTA FINANCE
ANNUAL REPORT
2005-06

ALPHABETICAL LIST OF ENTITIES' FINANCIAL STATEMENTS IN MINISTRY 2005-06 ANNUAL REPORTS

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Access to the Future Fund[1]	Advanced Education
Agriculture Financial Services Corporation	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Capital Finance Authority	Finance
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Heritage Foundation for Medical Research Endowment Fund	Finance
Alberta Heritage Savings Trust Fund	Finance
Alberta Heritage Scholarship Fund	Finance
Alberta Heritage Science and Engineering Research Endowment Fund	Finance
Alberta Historical Resources Foundation	Community Development
Alberta Insurance Council	Finance
Alberta Local Authorities Pension Plan Corporation[2]	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Finance
Alberta School Foundation Fund	Education
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Finance
Alberta Social Housing Corporation	Seniors and Community Supports
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Finance
ATB Investment Management Inc.	Finance
ATB Investment Services Inc.	Finance
ATB Services Inc.	Finance
Child and Family Services Authorities:	Children's Services
Calgary and Area Child and Family Services Authority	
Central Alberta Child and Family Services Authority	
East Central Alberta Child and Family Services Authority	
Edmonton and Area Child and Family Services Authority	
North Central Alberta Child and Family Services Authority	
Northeast Alberta Child and Family Services Authority	
Northwest Alberta Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Southwest Alberta Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	
Credit Union Deposit Guarantee Corporation	Finance
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Advanced Education	Advanced Education
Department of Children's Services	Children's Services

1 Established July 10, 2005.
2 Incorporated December 16, 2005.

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Department of Community Development	Community Development
Department of Education	Education
Department of Energy	Energy
Department of Finance	Finance
Department of Gaming	Gaming
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Seniors and Community Supports	Seniors and Community Supports
Department of Solicitor General and Public Security	Solicitor General and Public Security
Department of Sustainable Resource Development	Sustainable Resource Development
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
iCORE Inc.	Innovation and Science
Lottery Fund	Gaming
Ministry of Aboriginal Affairs and Northern Development[3]	Aboriginal Affairs and Northern Development
Ministry of Advanced Education[3]	Advanced Education
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[3]	Economic Development
Ministry of Education	Education
Ministry of Energy	Energy
Ministry of Environment[3]	Environment
Ministry of Executive Council[3]	Executive Council
Ministry of Finance	Finance
Ministry of Gaming	Gaming
Ministry of Government Services[3]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[3]	Human Resources and Employment
Ministry of Infrastructure and Transportation[3]	Infrastructure and Transportation
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[3]	International and Intergovernmental Relations
Ministry of Justice[3]	Justice
Ministry of Municipal Affairs[3]	Municipal Affairs
Ministry of Restructuring and Government Efficiency[3]	Restructuring and Government Efficiency
Ministry of Seniors and Community Supports	Seniors and Community Supports
Ministry of Solicitor General and Public Security	Solicitor General and Public Security
Ministry of Sustainable Resource Development	Sustainable Resource Development
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development

3 Ministry includes only the departments so separate department financial statements are not necessary.

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Persons with Developmental Disabilities Community Boards:	Seniors and Community Supports
Calgary Region Community Board	
Central Region Community Board	
Edmonton Region Community Board	
Northeast Region Community Board	
Northwest Region Community Board	
South Region Community Board	
Persons with Developmental Disabilities Provincial Board	Seniors and Community Supports
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Safety Codes Council	Municipal Affairs
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General and Public Security
Wild Rose Foundation	Community Development

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Fund or Agency	*Ministry Annual Report*
Alberta Foundation for Health Research	Innovation and Science
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Heritage Foundation for Science and Engineering Research	Innovation and Science
Alberta Teachers' Retirement Fund Board	Education
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan - Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan - Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Finance
Provincial Judges and Masters in Chambers Pension Plan	Finance
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	Finance
Public Service Management (Closed Membership) Pension Plan	Finance
Public Service Pension Plan	Finance
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Board	Human Resources and Employment

SCHOOLS, UNIVERSITIES, COLLEGES AND HOSPITALS INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY ON A MODIFIED EQUITY BASIS[4]

School Boards and Schools	*Ministry Annual Report*
Almadina School Society	Education
Aspen View Regional Division No. 19	Education
Aurora School Ltd.	Education
Battle River Regional Division No. 31	Education
Black Gold Regional Division No. 18	Education
Boyle Street Education Centre	Education
Buffalo Trail Public Schools Regional Division No. 28	Education
Calgary Arts Academy Society	Education
Calgary Girls' School Society	Education
Calgary Roman Catholic Separate School District No. 1	Education
Calgary School District No. 19	Education
Calgary Science School Society	Education
Canadian Rockies Regional Division No. 12	Education
CAPE-Centre for Academic and Personal Excellence Institute	Education
Chinook's Edge School Division No. 73	Education
Christ the Redeemer Catholic Separate Regional Division No. 3	Education
Clearview School Division No. 71	Education
East Central Alberta Catholic Separate Schools Regional Division No. 16	Education
East Central Francophone Education Region No. 3	Education
Edmonton Catholic Separate School District No. 7	Education
Edmonton School District No. 7	Education
Elk Island Catholic Separate Regional Division No. 41	Education
Elk Island Public Schools Regional Division No. 14	Education
Evergreen Catholic Separate Regional Division No. 2	Education
Foothills School Division No. 38	Education
Fort McMurray Roman Catholic Separate School District No. 32	Education
Fort McMurray School District No. 2833	Education
Fort Vermilion School Division No. 52	Education
Foundations for the Future Charter Academy Charter School Society	Education
Golden Hills School Division No. 75	Education
Grande Prairie Roman Catholic Separate School District No. 28	Education
Grande Prairie Public School District No. 2357	Education
Grande Yellowhead Regional Division No. 35	Education
Grasslands Regional Division No. 6	Education
Greater North Central Francophone Education Region No. 2	Education
Greater Southern Public Francophone Education Region No. 4	Education
Greater Southern Separate Catholic Francophone Education Region No. 4	Education
Greater St. Albert Catholic Regional Division No. 29	Education

4 The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants has issued standards that require controlled entities to be fully consolidated line-by-line. In a transitional period to March 31, 2008, the Ministry is permitted to use the modified equity method of accounting. Under the modified equity method, the controlled entities' net assets and operating results would be included in one line on the Ministry's consolidated statements of financial position and operations, respectively. The Ministry has not yet included the financial statements of these controlled entities. In the transitional period, the government will assess when and how to include these controlled entities in the Ministry's consolidated financial statements. The financial results of these controlled entities are included in the consolidated financial statements of the Province of Alberta for the year ended March 31, 2006 on a modified equity basis.

SCHOOLS, UNIVERSITIES, COLLEGES AND HOSPITALS INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY ON A MODIFIED EQUITY BASIS[4]

School Boards and Schools	*Ministry Annual Report*
High Prairie School Division No. 48	Education
Holy Family Catholic Regional Division No. 37	Education
Holy Spirit Roman Catholic Separate Regional Division No. 4	Education
Horizon School Division No. 67	Education
Lakeland Roman Catholic Separate School District No. 150	Education
Lethbridge School District No. 51	Education
Living Waters Catholic Regional Division No. 42	Education
Livingstone Range School Division No. 68	Education
Medicine Hat Catholic Separate Regional Division No. 20	Education
Medicine Hat School District No. 76	Education
Moberly Hall School Society	Education
Mother Earth's Children's Charter School Society	Education
New Horizons Charter School Society	Education
Northern Gateway Regional Division No. 10	Education
Northern Lights School Division No. 69	Education
Northland School Division No. 61	Education
Northwest Francophone Education Region No. 1	Education
Palliser Regional Division No. 26	Education
Parkland School Division No. 70	Education
Peace River School Division No. 10	Education
Peace Wapiti School Division No. 76	Education
Pembina Hills Regional Division No. 7	Education
Prairie Land Regional Division No. 25	Education
Prairie Rose Regional Division No. 8	Education
Red Deer Catholic Regional Division No. 39	Education
Red Deer School District No. 104	Education
Rocky View School Division No. 41	Education
St. Albert Protestant Separate School District No. 6	Education
St. Paul Education Regional Division No. 1	Education
St. Thomas Aquinas Roman Catholic Separate Regional Division No. 38	Education
Sturgeon School Division No. 24	Education
Suzuki Charter School Society	Education
Westmount Charter School Society	Education
Westwind School Division No. 74	Education
Wetaskiwin Regional Division No. 11	Education
Wild Rose School Division No. 66	Education
Wolf Creek School Division No. 72	Education

Universities

Athabasca University	Advanced Education
The University of Alberta	Advanced Education

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SCHOOLS, UNIVERSITIES, COLLEGES AND HOSPITALS INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY ON A MODIFIED EQUITY BASIS[4]

Universities	*Ministry Annual Report*
The University of Calgary	Advanced Education
The University of Lethbridge	Advanced Education

Colleges

Alberta College of Art and Design	Advanced Education
Bow Valley College	Advanced Education
Grande Prairie Regional College	Advanced Education
Grant MacEwan College	Advanced Education
Keyano College	Advanced Education
Lakeland College	Advanced Education
Lethbridge Community College	Advanced Education
Medicine Hat College	Advanced Education
Mount Royal College	Advanced Education
NorQuest College	Advanced Education
Northern Lakes College	Advanced Education
Olds College	Advanced Education
Portage College	Advanced Education
Red Deer College	Advanced Education

Technical Institutes and the Banff Centre

Northern Alberta Institute of Technology	Advanced Education
Southern Alberta Institute of Technology	Advanced Education
The Banff Centre for Continuing Education	Advanced Education

Regional Health Authorities and Other Health Boards

Alberta Cancer Board	Health and Wellness
Alberta Mental Health Board	Health and Wellness
Aspen Regional Health Authority	Health and Wellness
Calgary Health Region	Health and Wellness
Capital Health	Health and Wellness
Chinook Regional Health Authority	Health and Wellness
David Thompson Regional Health Authority	Health and Wellness
East Central Health	Health and Wellness
Northern Lights Regional Health Authority	Health and Wellness
Peace Country Health	Health and Wellness
Palliser Health Region	Health and Wellness

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