Finance

Annual Report 2006-07

Alberta Finance

Annual Report
2006-2007

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Preface

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 20 ministries.

The annual report of the Government of Alberta released June 21, 2007 contains the Minister of Finance's accountability statement and the consolidated financial statements of the Province. The *Measuring Up* report released June 28, 2007 provides a comparison of the actual performance results to the desired results set out in the government's business plan.

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, 2007, 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 20, 2007, with material economic or fiscal implications of which I am aware, have been considered in the preparation of this report.

[original signed by]

Lyle Oberg, M.D.
Minister of Finance
September 20, 2007

Message from the Minister

The past fiscal year was marked with several significant changes and many notable successes for the Ministry of Finance. The province continued to experience incredible growth and led the country in economic performance, employment and population growth.

This fiscal strength meant the government was able to lower taxes, increase savings and make improvements to the programs and services provided to Albertans, as well as provide increased support for infrastructure. .These are all examples of how the Government of Alberta is working to meet its priorities of managing growth pressures, improving Albertans' quality of life, and building a stronger Alberta.

Albertans can take pride in knowing that our government is managing the province's wealth in a way that will benefit not only current residents, but future generations of Albertans as well. Of the $8.9 billion surplus recorded in 2006-07, $2.3 billion was transferred to the Capital Account to help pay for capital projects in future years. Another $2.7 billion went to savings in the Alberta Heritage Savings Trust Fund and other endowments. The remaining surplus was retained in the Sustainability Fund, which itself provided $476 million in support for emergency/disaster relief and agriculture assistance.

I am especially pleased to report yet another success from the past fiscal year - all endowment funds, including the Heritage Fund, exceeded target performance. The Heritage Fund alone posted an overall rate of return of 12.4 per cent, bringing its market value at March 31, 2007 to $16.6 billion - the highest recorded value in its 31-year history. These figures illustrate prudent investment management and strong fiscal performance - both factors in maintaining the province's Triple A credit rating, the highest rating possible, which was achieved for the seventh consecutive year.

The Ministry of Finance was kept busy throughout the year with several important initiatives, perhaps the most significant of which was the undertaking of a royalty review, as part of the mandate set out for Alberta Finance by Premier Stelmach. An independent panel of experts was established to examine the province's royalty and tax regime to ensure Albertans are receiving a fair share from energy development through royalties, taxes, and fees. The panel held several public meetings across the province and submitted its final report and recommendations in the middle of September.

Other highlights from the past year include the passing of Bill 36, the *Securities Transfer Act, 2006*, changes to the *Employment Pension Plans Act* that provides Albertans with greater flexibility in managing their retirement savings, a three per cent reduction in mandatory auto insurance premiums, an increase to provincial tax credits for 2007, enhancement of the dividend tax credit, and an increase to the small business income threshold, which will encourage greater investment in the province and ensure Alberta's business market remains competitive.

Our achievements over the past year are a testament to the hard work and commitment of staff within the department - I am proud to be part of such a dedicated team. Looking forward, I believe *Budget 2007* holds great promise for the province, with several important initiatives already in place, including the new surplus allocation policy, and the creation of the Alberta Investment Management Corporation, which will ensure the province can continue to maximize its investment returns. Our continued fiscal strength will no doubt secure us as Canada's economic leader for years to come.

[original signed by]

Lyle Oberg, M.D.
Minister of Finance
September 20, 2007

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 by]

Robert Bhatia
Deputy Minister of Finance

Ministry Vision, Mission, Core Businesses and Goals

Vision

Financial Leadership that Strengthens Alberta

Mission

Provide Corporate Financial Services and Manage the Province's Financial Affairs and Policies in the interest of Albertans

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 Sound Management of Financial Assets and Liabilities for Current and Future Generations of Albertans

Goal 5 Effective Leadership in Risk Management

Core Business: Financial Sector and Pensions

Goal 6 Effective Regulation of Private Sector Pension, Insurance and Financial Products and Services

Goal 7 Accessible Financial Services for Albertans and Local Authorities

Goal 8 An Effective and Efficient Securities Regulatory System

Goal 9 Sustainable Public Sector Pension Plans in Alberta

Relationship of Finance Department of 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	• Budget & Fiscal Planning • Tax and Revenue Administration	• Alberta Investment Management • Treasury Management	• Pensions, Insurance Financial Institutions
		Funds • *Alberta Risk Management Fund* **Endowment Funds** • *Alberta Heritage Savings Trust Fund* • *Alberta Heritage Foundation for Medical Research Endowment Fund* • *Alberta Heritage Scholarship Fund* • *Alberta Heritage Science and Engineering Research Endowment Fund* • *Alberta Cancer Prevention Legacy Fund*	**Agencies, Boards and Commissions** • *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

Finance		www.finance.gov.ab.ca
Terrace Building	Haultain Building	
9515 -107 Street	9811 -109 Street	1100-715 - 5th Avenue SW
Edmonton, Alberta	Edmonton, Alberta	Calgary, Alberta
T5K 2C3	T5K 2L5	T2P 2X6

Budget & Fiscal Planning

Budget and Fiscal Planning manages the provincial budget, prepares economic and fiscal forecasts, and provides research, analysis and recommendations on the Province's fiscal, economic and taxation policies. Budget and Fiscal Planning is responsible for intergovernmental fiscal relations and for providing statistical information about the Province. It also prepares budget documents and quarterly budget updates.

Budget and Fiscal Planning is divided into the following areas: Budget Planning and Integration, Economics and Public Finance, and Tax Policy.

Tax & 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 inquiries, as well as 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 in understanding tax legislation and requirements in Alberta. TRA has four branches: Revenue Operations, Audit, Tax Services, and Business Technology Management.

Investment, Treasury and Risk Management

Investment

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).

AIM is one of the largest public sector asset managers in Canada with $73.2 billion in assets under management as of March 31, 2007. AIM acts 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 10 functional areas: Portfolio Analysis and Research, Active Canadian Equities, Fixed Income Operations, Structured Investments, Fund Management, External Fund Management, Real Estate, Mortgages, Private Equity, and Infrastructure and Timberlands.

IMD provides a comprehensive set of products, including 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 for a broad range of client funds including six public sector pension funds, a number of endowment funds, including the Alberta Heritage Savings Trust Fund, and other special purpose funds. As of March 31, 2007, assets under management include:

- Pension Investments (totaling $27.4 billion) comprised 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 $42.8 billion) comprised of the General Revenue Fund, (GRF) 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 $3.1 billion) comprised of funds managed on behalf of the Workers' Compensation Board, the Long Term Disability Fund Bargaining Unit, the Long Term Disability Management Fund, Opted Out and Excluded Employees, and other funds.

The Investment Administration Division is led by the Chief Administrative Officer and is divided into four key areas: Investment & Debt Information Systems; Private & Structured Investments; Securities Administration; and Valuations & Fund Accounting.

- Investment & Debt Information Systems - responsible for managing the information technology requirements of the organization. This entails supporting over 100 applications, and overseeing approximately 75 servers.
- Private & Structured Investments - administers the specialized investments of the organization. The two major types of investments administered by the Private and Structured Investments are Swaps and Private Investments. Currently, the Private and Structured Investment area is administering over $9.2 billion in allocated value of private investments with another $37.5 billion in notional value invested in structured investments.

- Securities Administration - ensures that trades in such investments as equities, fixed income, futures, and foreign exchanges to name a few are properly settled with the custodian, State Street. The Securities Administration area oversees the entire trade process from the issuance of a trade to the reconciliation with the custodian. As well, the Securities Administration area verifies and validates the key financial data used by the organization.
- Valuations & Fund Accounting - accounting for investments, pricing and valuing investments, and determining how investment performance compares against the benchmark.

For externally managed investment pools, certain of these functions are performed by the organization's custodian, State Street.

The Auditor General of Alberta provides the external audit function, while the Internal Audit & Compliance Office (IACO) of Alberta Finance, in partnership with PricewaterhouseCoopers, acts as internal auditor. IACO is responsible for a risk-based compliance and internal audit program for the investment operation. This group is headed by the Chief 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

Treasury Management (TM) is responsible for management of short-term borrowing and investments, banking and cash forecasting, arranging financing for the government and provincial corporations, and for monitoring and managing loans and guarantees. TM is also responsible for policy development and portfolio planning and evaluation for the investments of the GRF and the endowments. The division provides financial and banking advice to other government departments including active involvement in the Province's Public Private Partnership (P3) projects. TM is divided into the following two areas: Capital Markets, and Banking and Cash Forecasting.

Risk Management

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, capital markets 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 six areas: Pensions, Insurance, Financial Institutions, Public Sector Pension Policy, Capital Markets and Divisional Support.

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 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 per cent 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 Corporation 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 477 employers, approximately 196,000 active and deferred members, and 61,000 pensioners.

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

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

ATB Financial www.atb.com

9888 Jasper Avenue
Edmonton, Alberta
T5J 1P1

ATB Financial (ATB) is a $20.3 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 244 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.

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 Ac*t. 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.

Alberta Securities Commission (ASC) www.albertasecurities.com

4th Floor, 300-5th Ave SW
Calgary, Alberta
T2P 3C4

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

ASC’s annual report is available on its Internet site.

Summary of Key Activities in the Past Year

- Alberta experienced incredible growth in 2006, leading the country in economic performance, employment, and migration. Support for infrastructure was increased, improvements were made to the programs and services provided to Albertans, taxes were lowered and savings increased.

- Alberta recorded a surplus for the thirteenth consecutive year. As reported in the 2006-07 *Government of Alberta Annual Report*, revenue exceeded expense by $8.9 billion, about $4.9 billion higher than budgeted. This increase was primarily due to higher income tax revenue and investment income.

- Of the $8.9 billion surplus, $2.3 billion was transferred to the Capital Account to help pay for capital projects in future years. Another $2.7 billion went to savings, through the Heritage Fund and other endowments. The remaining surplus was retained in the Sustainability Fund.

- In 2006-07, $476 million was withdrawn from the Sustainability Fund to pay for emergencies/ disasters such as forest fires and mountain pine beetle infestations, and for agriculture assistance.

- During the 2006-07 fiscal period, all endowment funds exceeded target performance measures, including the Heritage Savings Trust Fund, which posted an overall rate of return of 12.4 per cent. The Fund's market value was $16.6 billion at March 31, 2006, an increase of $1.8 billion from the beginning of the year and the highest recorded value in its 31-year history.

- Alberta maintained its Triple A credit rating, the highest rating possible, for the seventh straight year. Rating agencies cite Alberta's extremely low debt burden and low reliance on federal transfers, combined with its record of prudent investment management and exceptionally strong fiscal performance as the key reasons for the top rating.

- Government announced a review of the royalties, taxes and fees paid by the energy sector. An independent panel of experts will examine the province's royalty and tax regime to ensure Albertans are receiving a fair share from energy development through royalties, taxes and fees. The review will focus on all aspects of the royalty system, including oilsands, conventional oil and gas, and coalbed methane.

- Albertans and Alberta businesses paid the lowest overall provincial taxes in Canada. Government reduced the corporate income tax rate from 11.5 per cent to 10 per cent, increased health care insurance premium thresholds, adjusted the personal income tax system to prevent inflation from increasing taxes, and raised basic and spousal credit amounts by an additional $100 above the indexation adjustment. A two-tier dividend tax credit and an increase to the small business threshold were announced and will be fully phased in by 2009.

- The new *Fuel Tax Act* and Fuel Tax Regulations, developed in consultation with industry, was introduced and passed. These replace the old *Fuel Tax Act* and Regulations, which were outdated, and set out a clear tax collection framework, making the tax collection process more efficient and transparent. Implementation of the new Act and Regulations is in progress.

- Bill 36, the *Securities Transfer Act*, 2006, was introduced and passed. The new act consolidates Alberta's securities transfer laws under one act to provide a single, uniform set of rules for the transfer and holding of securities and interests in investment property. It also establishes clear rules for the electronic transfer of securities.

- The Automobile Insurance Rate Board held formal public meetings to review mandatory premiums, as required by Alberta's automobile insurance reform process. As a result of the review, Alberta drivers saw a three per cent reduction in premiums for mandatory auto insurance. This brought total reductions, since reforms were introduced, to 18 per cent.

- Changes to the *Employment Pension Plans Act* regulations gave Albertans leaving a Registered Pension Plan better access to their retirement savings. People now have a one-time option to unlock up to 50 per cent of their locked-in pension contributions after exiting an eligible pension plan.

- Under the *Alberta Investment Management Corporation Act*, government will move its investment operations into a provincial corporation. The newly named Alberta Investment Management Corporation will have improved organizational governance, increased flexibility and opportunities for greater investment returns for Alberta's savings, public sector pensions, endowments and other funds.

AUDITOR GENERAL
Alberta

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 2006-2007 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 2006. 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 by]
Fred Dunn
FCA
Auditor General

Edmonton, Alberta
August 17, 2007

Ministry Financial Highlights

Revenue

(thousands of dollars)

	2006-07		2005-06
	Budget	Actual	Actual
Revenue	**12,067,606**	**16,787,588**	**12,150,270**

Revenue for the Ministry was $4.6 billion, or 38% higher than last year.
(Actual - Actual)

- Strong personal income growth for Albertans resulted in personal income tax revenue being $1.6 billion higher than in 2005-06 (excluding the deduction from 2005-06 revenue of the *Alberta 2005 Resource Rebate*). Including the resource rebate deduction, the net increase was $2.9 billion.
- Corporate income taxes were higher than last year by $690 million due to strong economic growth and higher energy prices.
- Other taxes were higher by $165 million. Changes in the tobacco distribution chain and high population growth resulted in increased tobacco tax collected of $57 million. Fuel tax increased by $70 million due to greater consumption.
- 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 $647 million in investment income.
- Higher lottery revenues resulted in an increase in transfers from the Lottery Fund of $99 million as compared to the previous year.

Revenue for the Ministry was $4.7 billion, or 39%, over budget.
(Budget - Actual)

- Personal income tax revenue was $1.6 billion higher than budgeted due to stronger-than-expected growth in personal incomes and updated assessment data for the 2005 tax year.
- Corporate income tax revenue increased to a record level in 2006-07, resulting in revenues of $3.6 billion - $1.4 billion higher than budgeted. This was due to continued strength in energy prices and strong economic growth resulting in higher corporate profits.
- Other taxes were $193 million higher than budgeted. The increases in revenue came from Tobacco tax - $36 million, fuel tax - $92 million, insurance taxes - $39 million, tourism levy - $18 million and the broker tax - $8 million. The increases were mainly caused by increased population and higher consumption.
- Overall investment returns were higher than expected and well above historical averages, resulting in the revenue being $1.2 billion higher than budgeted. Almost $900 million of the change from budget comes from the endowment funds - $734 million from the Alberta Heritage Savings Trust Fund alone. The Department also contributed $265 million to the investment income increase due to higher investment balances in the Sustainability Fund and Capital Account.
- Higher than expected Lottery Fund revenue resulted in increased transfers from the Lottery Fund to the General Revenue Fund of $274 million over budget.

Expenses
(thousands of dollars)

	2006-07		2005-06
	Budget	Actual	Actual
Expense	**$922,496**	**$950,155**	**$870,212**

Ministry expenses were $80 million, or 9% higher than in 2006.
(Actual - Actual)

- The government made a one-time payment of $40 million to fund the actuarial deficit in the Management Employees Pension Plan.
- Transfers to the Access to the Future Fund were $29 million higher than last year.
- Transfers from the endowment funds and the Cancer Prevention Legacy Fund to their respective foundations increased by $36 million as compared to 2005-06.
- Debt servicing costs were $25 million lower than last year due to continued reduction in total debt.

Expenses for the Ministry were $28 million, or 3%, over budget.
(Budget - Actual)

- Transfers from the Cancer Prevention Legacy Fund to Alberta Health were approximately $25 million more than budgeted. This was offset by lower transfers from the Science and Engineering Fund of $6 million.
- The increase to the Ministry's pension obligation was $14 million, which is not included in the budget numbers in the financial statements.
- The expenses also include a one-time payment of $40 million to fund the actuarial deficit in the Management Employees Pension Plan.
- Debt servicing costs for the department were $29 million under budget due to the continued pay-down of the debt.
- The increases were offset by lower than expected manpower costs in the Department, Alberta Pensions Administration Corporation, Alberta Insurance Council and Alberta Capital Finance Authority.

Expense by Core Business

MINISTRY EXPENSE BY 2006-07 CORE BUSINESS (thousands of dollars)		2006-07 Budget	2006-07 Actual	2005-06 Actual
Fiscal Planning and Financial Management		57,510	50,825	52,860
Investment, Treasury and Risk Management		522,998	528,927	447,337
Financial Sector and Pensions		341,988	356,001	337,396
	1	**922,496**	**935,753**	**837,593**

Expense by Function

MINISTRY EXPENSE BY FUNCTION (thousands of dollars)		2006-07 Budget	2006-07 Actual	2005-06 Actual
Health		80,365	80,297	50,211
Education		59,493	64,642	34,254
Agriculture, Resource Management and Economic Development		27,933	22,000	18,261
Protection of Persons and Property		28,675	26,345	23,043
Regional Planning and Development		275,226	295,204	282,446
General Government		213,757	239,659	189,244
Debt Servicing Costs		237,047	207,835	240,134
	1	**922,496**	**935,982**	**837,593**

1 Excludes pension provisions of $11,000 for 2006-07 Budget, $14,173 for 2006-07 Actual and $40,076 for 2005-06 Actual

Performance Measures, Targets and Results

Core Business: Fiscal Planning and Financial Management

A major component of Alberta's strategy for continued balanced budgets is the legislated fiscal framework. The framework, enshrined mainly in the *Fiscal Responsibility Act* (FRA), governs budgeting and fiscal management. It requires three-year fiscal plans and outlaws deficits and borrowing for operating purposes in order to make budgets affordable and sustainable over the short and longer terms. It also addresses Alberta's resource revenue volatility by limiting the amount of resource revenue that can be used for budget purposes and by protecting fiscal plans from revenue volatility and the costs of emergencies and disasters through the Alberta Sustainability Fund. Responsibility for the framework rests mainly with Alberta Finance.

In 2006-07, the FRA was amended to increase the amount of non-renewable resource revenue that can be used for budget purposes from $4.75 billion to $5.3 billion.

Finance 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. For the second year, the Government of Alberta 2006-07 Annual Report (including the audited financial statements) included the net equity of Crown-controlled organizations in the SUCH sector (schools, universities, colleges and health authorities). *Due to government restructuring, on December 13, 2006 these functions became the responsibility of Treasury Board.

Financial Information (thousands of dollars)		**2006-07 Budget**	**2006-07 Actual**	**Variance**
Expenses for Core Business: Fiscal Planning and Financial Management		$ 57,510	$ 50,825	($ 6,685)

The Fiscal Planning and Financial Management program was $6.7 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 2006-07 reflect this prudent risk management approach. The budget was balanced for the thirteenth consecutive year in 2006-07, with a surplus of $8.9 billion. After taking into account required adjustments, the 2006-07 surplus was deposited in the Alberta Sustainability Fund. As assets of the Fund were already above the $2.5 billion target level, the cash from the surplus was available for allocation to other balance sheet accounts: $2.3 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 funds, and $3.6 billion was retained in the Sustainability Fund.

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
Alberta's credit rating	AAA	AAA (2006-07)	AAA (2005-06)	AAA (2004-05)	AAA (2003-04)

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

In the 2006-07 fiscal year, Alberta once again garnered a Triple A rating, the highest possible rating from all three major credit rating agencies. This means Alberta achieved its target for this measure and makes Alberta the most highly rated province in Canada. Alberta's credit rating is a broad measure of the province's financial stability and reflects the rating agencies positive assessment of the province's fiscal, economic, and political environment. In their reports the rating agencies cite Alberta's extremely low debt burden and low reliance on federal transfers, combined with Alberta's record of prudent fiscal management and exceptionally strong fiscal performance as reasons for the high rating. The three major credit rating agencies are Standard and Poor's Rating Service, Moody's Investor Service Limited and Dominion Bond Rating Service.

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
Percentage of Albertans who feel that the Government of Alberta provides adequate financial information to the public (based on those surveyed who expressed an opinion)	70%	56% (2006-07)	59% (2005-06)	n/a* (2004-05)	n/a* (2003-04)

Source: Focus Alberta, Research on Public Information Survey, and Finance
*n/a Data not comparable

In 2007, Albertans were surveyed and asked the following questions: Do you feel that adequate financial information about the Government of Alberta is available to the public? The survey results show that 56% of Albertans were satisfied with the information they received from the province on the Government of Alberta's financial information, through the three-year consolidated fiscal and business plans, quarterly fiscal updates and annual performance reports, including audited financial statements. The provincial government reports quarterly to Albertans on progress made in achieving the current year's fiscal plans. The *Government Accountability Act* sets out the reporting requirements that provide government accountability. 2006-07 results were down from 59% in 2005-06 and below the target of 70%.

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 Alberta businesses to spend as they see fit and helps attract skilled workers and investment to the province.

Several enhancements to the tax system for 2006-07 will mean an even lower burden for Albertans. Beginning with the 2007 tax year, charitable donations above $200 will now receive a credit of 21%, up from 12.75%. Education tax credit amounts will rise 26%, to $600 for full-time students and $180 for part-time students.

In September 2006, the government announced the introduction of a two-tier dividend tax credit system, in response to changes made by the federal government. The dividend tax credit on dividends paid out of income that was taxed at the general corporate income tax rate will rise to 10.0% by 2009. Over the same period, the dividend tax credit on dividends paid out of income taxed at the small business rate will fall to 3.5%. These changes will ensure that income earned through wages and salaries, through small businesses and through large corporations is treated equally for tax purposes.

Alberta has the lowest provincial tax load for the representative two-income families who have annual incomes of $75,000 and $125,000 and the second-lowest tax load for the representative single-income family earning $30,000.

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
Provincial tax load for a family of four	Lowest in Canada	Lowest in Canada (2006-07)	Lowest in Canada (2005-06)	Lowest in Canada (2004-05)	Lowest in Canada (2003-04)

Source: Alberta Finance, Interprovincial Tax and Health Care Insurance Premium Comparison, 2007, p. 146 of Budget 2007

	One-income family with two children earning $30,000 ($)	Two-income family with two children earning $75,000 ($)	Two-income family with two children earning $125,000 ($)
AB	228	5,109	9,313
BC	2,609	6,309	10,459
MB	2,859	8,162	14,969
NB	2,898	7,753	14,837
NL	4,115	9,315	17,319
NS	3,402	8,147	15,368
ON	1,971	6,935	12,161
PE	3,899	8,854	15,900
QC	-1,217	8,393	18,853
SK	1,797	6,559	12,207

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, $9,700 and $16,800 are included in the calculation of personal income tax for the $30,000, $75,000 and $125,000 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	2006-07 Target	Current Results	Previous Years' Result(s) *		
Provincial tax load on businesses	Lowest in Canada	Lowest in Canada (2006-07)	Lowest in Canada (2005-06)	Second-lowest in Canada (2004-05)	Third-lowest in Canada (2003-04)
			Second-lowest in Canada (historical data was revised by the Federal Department of Finance resulting in Alberta being the second lowest, after New Brunswick)*	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)

Source: Federal Department of Finance

*At the time the 2005-06 Finance Annual Report was published, Alberta had the lowest provincial tax load on business. However, the data for this measure has since been revised by the federal Department of Finance, resulting in Alberta having the second-lowest business tax load for 2005-06.

In 2006-07, Alberta's tax load on business was the lowest in Canada. Our closest competitor was New Brunswick, with a tax load that was 13.3 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.

Several measures introduced or announced in 2006-07 make Alberta an even more attractive place to do business. On April 1, 2006, the general corporate income tax rate was cut to 10% from 11.5%. In addition, the government announced the small business income threshold would increase to $430,000 in 2007, $460,000 in 2008 and $500,000 in 2009.

TAX LOAD ON BUSINESS*	2006-07	2005-06
Alberta	**69.9**	**69.2**
New Brunswick	83.2	66.9
British Columbia	95.0	87.0
Newfoundland and Labrador	90.4	118.8
Prince Edward Island	93.1	76.0
Nova Scotia	99.3	102.3
Ontario	101.3	109.8
Manitoba	103.8	111.8
Quebec	111.1	101.4
Saskatchewan	221.9	204.3

Source: Federal Department of Finance, February 2007 Third Estimate for 2006-07, Fifth Estimate for 2005-06.

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.

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.

The government also began a review of the royalties, taxes and fees paid by the energy sector. The review is being conducted by an independent panel of experts and will address the following issues:

- How Alberta's royalty system compares to other oil and gas producing jurisdictions, taking into account investment economics and industry returns and risks in Alberta.
- Whether Alberta's royalty system is sufficiently sensitive to market conditions.
- Whether the current revenue minus cost system for oilsands royalties is optimal.
- Which programs built into the existing royalty system should be retained or strengthened, and which should be adapted or eliminated.
- How the tax treatment of the oil and gas sector compares to other sectors and jurisdictions.
- The economic and fiscal impacts of any possible changes to the royalty and corporate tax structures.
- How existing resource development should be treated if changes are to be made to the fiscal regime.

The panel's report will be submitted by the middle of September 2007.

Goal 3 Revenue Programs are Administered Fairly, Efficiently and Effectively

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

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
Ratio of amounts added to net revenue to costs of administration	12:1	15:1 (2006-07)	11.9:1 (2005-06)	9.6:1 (2004-05)	14:1 (2003-04)

Source: Alberta Finance Tax and Revenue Administration

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. This measure is calculated by dividing the additional revenue obtained because of these efforts, by TRA's operating budget. This year's result has been impacted by increased compliance activities and Alberta's strong economy.

The amount added to net revenue for 2006-07 was $399.3 million and the associated costs were $26.6 million, resulting in a value added ratio of 15.0 to 1; essentially, recoveries of $15 for every $1 spent.

Performance Measure	2006-07 Target	Current Results
Percentage of revenue obtained through self-compliance	92%	92.8% (2006-07)

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 is 92%.

Voluntary compliance means that taxpayers accurately complete and submit their tax information. This measure is calculated by dividing the tax revenue obtained as a result of voluntary compliance by total tax revenue. Improved information and expanded audit coverage has maintained self-compliance at above-target levels.

Core Business: Investment, Treasury and Risk Management

An important objective of Alberta Investment Management 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.

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)	**2006-07 Budget**	**2006-07 Actual**	**Variance**
Expenses for Core Business: Investment, Treasury and Risk Management	$ 522,998	$ 528,927	$ 5,929

As the Government's outstanding debt balances continue to decline, the cost of servicing the debt decreases. In 2006-07 the Government also saw lower than anticipated interest rates which resulted in lower borrowing costs. Overall, debt servicing costs were $29 million lower than budgeted and $25 million lower than last year. Higher than budgeted transfers out of the endowment funds for medical research and the *Access to the Future Act* offset the lower borrowing costs.

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

- A $40 million pay-down of the Management Employee Pension Plan actuarial liability;
- Transfers of $40 million to Advanced Education for the Access to the Future Fund - $6 million more than budgeted;
- $7 million related to the Timberland losses; and
- A $25 million transfer from the Alberta Cancer Legacy Prevention Fund to Health.

Goal 4 Sound Management of Financial Assets and Liabilities 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 market value of the Heritage Fund increased by $1.8 billion from $14.8 billion to $16.6 billion. The increase can be attributed to:

- $1 billion deposited from the Province's 2006-07 surplus and an additional $250 million for the advanced educational endowment within the Heritage Fund,
- $283 million retained from the investment income as a protection against inflation and
- $228 million from unrealized capital gains.

Performance Measure*	2006-07* Target	Current Results*	Previous Years' Results
The market value rate of return of the selected asset mix (policy benchmark) of the Alberta Heritage Savings Trust Fund will be compared against the Consumer Price Index (CPI) plus 4.5% to determine whether the long-term investment policy is achieving the returns expected based on long-term capital market assumptions	6.6% (CPI + 4.5%)	10.3% (3.7% above the target) (2006-07)	10% (3.3% above the target) (2005-06)

* As this performance measure was implemented in the fiscal year 2004-05 the three-year annualized market value rate of return of the Heritage Fund investment policy benchmark is compared to the three-year CPI plus 4.5% in the fiscal year 2006-07. 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. Both the measure and target will be annualized. 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.*

Performance Measure*	2006-07* Target	Current Results*	Previous Years 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 those funds to determine the impact of active fund management on performance	Policy Benchmark plus 50 basis points	All funds exceeded target benchmark (2006-07)	All funds exceeded target benchmark (2005-06)

*As this performance measure was implemented in the fiscal year 2004-05, three-year annualized market value rate of return of each endowment fund is compared against the three -year annualized policy asset mix rate of return plus 50 basis points (bps) for that endowment fund in the fiscal year 2006-07. 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. Both the measure and target will be annualized. 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 a premium as identified in the ministry's business plan.

Three-year market value rate of return of the endowment funds and their policy benchmark plus 0.5% as of March 31, 2007:

Endowment fund	Three-year annualized market value rate of return (%)	Three-year annualized market value rate of return of the policy benchmark plus 50bps (%)
Alberta Heritage Savings Trust Fund	11.7	10.8
Alberta Heritage Foundation for Medical Research Endowment Fund	11.9	11.2
Alberta Heritage Scholarship Fund	12.2	11.6
Alberta Heritage Science and Engineering Research Endowment Fund	11.1	10.5
Ultimate Heir Trust “B” Endowment	11.6	11.2

Source: Alberta Investment Management, Alberta Finance

Performance Measure*	2006-07 Target*	Current Results*
Five-year weighed average market value rate of return for public sector pension fund clients compared against the weighted average policy asset mix rate of return (benchmark) for those funds to determine the impact of active fund management on performance	Policy Benchmark plus 50 basis points	Two pension plans did not meet the target by 10 and 50bps. (2006-07)

*As this performance measure was implemented in the fiscal year 2006-07, one-year annualized market value rate of return of each pension fund is compared against the one-year annualized policy asset mix rate of return plus 50 basis points (bps) for that pension fund. 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. Both the measure and target will be annualized. 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 pension fund compared against the annualized five-year weighted average policy asset mix rate of return plus some premium as approved by ministry's business plan.

One-year market value rate of return of the pension funds and their policy benchmark plus 0.5% as of March 31, 2007:

Pension plan	One-year market value rate of return (%)	One-year market value rate of return of the policy benchmark plus 50bps (%)
Local Authorities	12.3	11.2
Management Employees	11.4	11.1
Provincial Judges and Masters in Chambers	10.9	10.7
Provincial Judges and Masters in Chambers Unregistered	9.3	9.8
Public Service	11.2	10.8
Supplementary Retirement Plan for Public Service Managers	10.2	10.3
Special Forces	11.8	11.3
Universities Academic	11.9	11.6

Source: Alberta Investment Management, Alberta Finance

Performance Measure	2006-07 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	Out performed the target by 2 basis points (2006-07)	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)

Source: Alberta Finance Treasury Management

Basis point is 1/100 of a percent.
* The target for 2004-05 was "exceeds the benchmark by 10 basis points"
**Benchmark was established in 2003-04

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 2006-07 was 4.23%. The one-year return on the CCITF was 4.25% which was 2 basis points higher than the benchmark.

In 2006-07, the ministry arranged the borrowing of $1.4 billion for provincial crown corporations through public bond issues and private placements. Through seeking alternative markets and negotiating lower commissions the ministry was able to save the Province and its corporations an estimated $2.8 million compared to selling the same bonds in the Canadian public market.

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
All-in cost of debt issued compared to an issue of Alberta debt of comparable term in the Canadian public debt market	Cost lower than the comparable debt issued in the Canadian public debt market	Cost lower $2.8 million Savings (2006-07)	n/a (2005-06)	Cost Lower $1.3 million Savings (2004-05)	Cost lower $1.2 million Savings (2003-04)

Source: Treasury Management Report

Goal 5 Effective Leadership in Risk Management

Alberta Finance administers a program to protect, secure and preserve public assets against risk of significant accidental loss. The Ministry serves all participants prescribed under the *Financial Administration Act* and provides leadership by supporting all government ministries and agencies in identifying, measuring, controlling and financing the risks of accidental loss. Effective risk management systems provide awareness, improve public safety and reduce costs to government in the long-term. Results of a government-wide survey of employees regarding risk awareness were received and strategies developed to increase awareness. As a result of extensive consultations with ministries, effective April 1, 2006 coverages provided by the risk management fund were enhanced to provide broader protection to all participants.

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
Value of the net assets of the Risk Management Fund	Net liability $2.0 million	Net liability $3.7 million (2006-07)	Net liability $6.0 million (2005-06)	Net liability $5.8 million (2004-05)	Net Liability $6.2 million (2003-04)

Source: 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 current net liability is higher than budget due to higher than budgeted claims costs in years 2005-06 and 2006-07. The fund actuary identified additional liability for reserves for claims incurred but not settled in each of these years.

Core Business: Financial Sector and Pensions

Alberta Finance regulates the industries of pensions, insurance, financial institutions and capital markets 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)	**2006-07 Budget**	**2006-07 Actual**	**Variance**
Expenses for Core Business: Financial Sector and Pensions	$ 341,988	$ 356,001	$ 14,013

The Financial Sector and Pensions program was $14 million over budget. This was mainly due to higher servicing costs on the debt of the Alberta Capital Finance Authority ($16 million higher than budgeted and $13 million higher than last year). Alberta Securities Commission also experienced higher expenses than last year due to increased staffing numbers, higher bonuses and one large severance payout.

Goal 6 Effective Regulation of Private Sector Pension, Insurance and Financial Products and Services

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 768 private pension plans. Of these 675 are active, 27 are in the process of being registered, and 66 are in the process of winding up. These plans have 197,400 active members. Total contributions were approximately $1.4 billion for the year ended March 31, 2007. The market values of total assets and going concern liabilities were $22.2 billion and $17.1 billion respectively, at the same reporting date.

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
Percentage of private sector pension plans that meet minimum funding requirements	99%	98% (2006-07)	99% (2005-06)	99% (2004-05)	99% (2003-04)

Source: SBIS Risk Assessment System

Private sector pension plan sponsors must demonstrate they have adequate funding to pay out all promised benefits by filing annual information returns and audited financial statements, and having triennial actuarial valuations completed for defined benefit plans.

The *Employment Pension Plans Act* requires defined benefit 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. Defined contribution plans must make contributions in the amounts specified under the terms of the plan, and within legislated time frames. The Department's performance benchmark is that at least 99% of pension plans registered in Alberta meet these minimum funding requirements.

This result was not achieved as only 98% of pension plans registered in Alberta met the minimum funding requirements outlined above. This was due mainly to the number of plans not meeting the minimum funding requirements increasing from seven to eleven because of four union-sponsored pension plans being unable to meet the minimum solvency requirements in the past year. Although investment returns have been strong, the bond interest rates used to value solvency liabilities are very low, resulting in increases in liabilities which have in many cases exceeded the gains from investments. Shortly after the end of the fiscal year, the four union-sponsored plans will become eligible for a newly-legislated temporary solvency payment moratorium, accompanied by a shortening in the amortization period for unfunded liabilities to 10 years from 15. This will allow them to meet the minimum funding requirements. As for the other seven plans (which are not union-sponsored), the Superintendent of Pension is actively working with them to ensure they are able to meet the minimum funding requirements over the long-term.

Goal 7 Accessible Financial Services for 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 Ac*t 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 154 branches and 134 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 $3.5 billion in loans outstanding to these sectors at March 31, 2007.

ATB Financial had a successful year with net income for the year ended March 31, 2007 of $274 million (compared to $199 million the previous year) and total assets growing to $20.3 billion at March 31, 2007 (up 15% from $17.6 billion in the previous year). Equity at March 31, 2007 was in excess of $1.6 billion.

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)		
ATB Financial return on average assets (before tax)	1.07%	1.45% (2006-07)	1.20% (2005-06)	1.27% (2004-05)	1.24% (2003-04)

Source: ATB Financial (for further information, refer to ATB Financial Annual Report for year ended March 31, 2007
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 2006-07 fiscal year was 1.45%, well ahead of the targeted return of 1.07%, and an increase from last year's (2005-06) return of 1.20%. Overall, the financial results for ATB compare favorably to that of major Canadian banks.

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	2006-07 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 of comparable cases	Met (in both cases compared) (2006-07)	Met (in both cases compared) (2005-06)	Met (for 3 of 4 cases compared) (2004-05)	Partially met (2003-04)

Source: ACFA Annual Report 2006, OSIFA, ACFA - www.acfa.gov.ab.ca

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 2006 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.

Goal 8 An Effective and Efficient 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	2006-07 Target	Current Results	Previous Years' Result(s)		
Inter-provincial/territorial system of securities regulation	Legal Framework for Passport System established	Amendments passed to enable Phase Two of the Passport System	Phase 1 implemented (passport system) (2005-06)	Provincial/Territorial Memorandum of Understanding (MOU) signed (2004-05)	- (2003-04)

Source: Alberta Finance, Policy and Strategic Planning

One of the key objectives of the 2004 Provincial/Territorial Memorandum of Understanding (MOU) signed by all provinces and territories except Ontario was the establishment of a passport system to provide market participants with a single access to Canadian capital markets. In April 2005, Alberta passed Bill 19 amending the *Securities Act* to facilitate the creation and development of a passport system. The first phase of the passport system was implemented by the regulators through a rule (Multilateral Instrument 11-101: Principal Regulator System) and related rule and policy changes effective September 19, 2005 using the statutory powers available at the time. The MOU 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 May 16, 2006, Alberta passed Bill 25, which amends the *Securities Act* to enable Phase 2 of the passport system to be implemented in early 2008. On April 12, 2007, Alberta passed Bill 21, which further amends the *Securities Act* to facilitate the adoption of a national registration rule (proposed National Instrument 31-103 *Registration Requirements*). Existing detailed registration requirements in the *Securities Ac*t will be repealed and replaced by the harmonized requirements in NI 31-103 as part of Phase 2.

In March 2007, the regulators published proposed National Instrument 11-102 Passport System as the mechanism for implementing Phase 2. Phase 2 builds on and largely replaces the first phase of passport - making it simpler, faster and cheaper for a market participant to clear a prospectus, register as a dealer, adviser or representative, or obtain an exemption. Although Alberta relinquished the role of Chair of the Council of Ministers of Securities Regulation in 2007, it will continue to provide a leadership role (as Chair of the Taskforce supporting the Council) 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	2006-07 Target	Current Results	Previous Years' Result(s)		
Highly harmonized securities law (includes highly harmonized rules, regulation and legislation)	Law drafted	Law passed (2006-07)	Continuation of development and enactment of highly harmonized securities laws (2005-06)	Provincial/Territorial Memorandum of Understanding (MOU) signed (2004-05)	- (2003-04)

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 May 16, 2006, Alberta passed Bill 25, and on April 12, 2007 passed Bill 21 amending the *Securities Act* to 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 continued to lead the development of highly harmonized securities legislation. For additional information, visit the website at www.securitiescanada.org.

Many of the provisions of Bill 25 (2006) and Bill 21 (2007) are in effect but a number of provisions will not be proclaimed until related national rules are implemented (e.g. rules dealing with general registration requirements, take-over bids and issuer bids, and general prospectus requirements) in late 2007 or mid-2008.

Goal 9 Sustainable Public Sector Pension Plans in Alberta

Performance Measure	2006-07 Target	Current Results	Previous Years' Result(s)
Improved pension plan governance	Governance review complete	Governance documents are in place	n/a

Source: Governance documents

Appropriately authorized documents pertaining to the Local Authorities Pension Plan are in place including Minister's delegation of administration functions, ALAPP Corp. incorporation documents, and Operating Protocols.

Operating Protocols for Public Service Pension Plan, Special Forces Pension Plan and Management Employees Pension Plan are outstanding.

Phase II of the governance review, which addresses board structure, the stakeholder role in governance, and on effective consultation processes with key stakeholders has been deferred to 2007-08.

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MINISTRY OF FINANCE

Consolidated Financial Statements

Year Ended March 31, 2007

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, 2007 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, 2007 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 18, 2007

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended March 31, 2007

	2007 Budget (Schedule 2)	2007 Actual	2006 Actual Restated (Note 11)
		($ thousands)	
Revenues (Schedules 1 and 2)			
Income taxes	$ 8,226,025	$ 11,228,215	$ 7,593,784
Other taxes	1,628,171	1,820,796	1,655,782
Transfers from Government of Canada	4,178	4,180	4,179
Net investment income	1,764,997	2,952,664	2,305,477
Net income from commercial operations	222,603	281,664	205,922
Premiums, fees and licences	39,253	44,891	40,472
Internal government transfers	116,686	390,488	291,478
Other	65,693	64,690	53,176
	12,067,606	16,787,588	12,150,270
Expenses (Schedules 2 and 3)			
Fiscal planning and financial management	51,431	45,638	41,412
Investment, treasury and risk management	283,249	318,548	204,048
Financial sector and pensions	340,120	355,183	336,382
Ministry support services	9,649	9,086	8,698
Valuation adjustments (Schedule 4)	1,000	13,865	39,539
Debt servicing costs			
General government	199,000	169,799	194,897
School boards	38,047	38,036	45,236
	922,496	950,155	870,212
Net operating results	$ 11,145,110	$ 15,837,433	$ 11,280,058

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

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2007

	2007	2006 Restated (Note 11)
	($ thousands)	
Assets		
Cash and temporary investments (Schedule 5)	$ 5,342,418	$ 5,636,540
Accrued interest and accounts receivable (Schedule 6)	899,927	912,914
Portfolio investments (Schedule 7)	32,746,392	24,293,157
Equity in commercial enterprises (Schedule 8)	1,826,008	1,542,927
Loans and advances to government entities (Schedule 9)	1,163,438	1,227,166
Other loans and advances (Schedule 10)	5,043,320	4,501,834
Tangible capital assets (Schedule 11)	17,926	17,796
	$ 47,039,429	$ 38,132,334
Liabilities		
Bank overdraft	$ 1,639,348	$ 1,655,887
Accrued interest and accounts payable (Schedule 12)	1,365,289	1,151,821
Unmatured debt (Schedule 13)	2,556,534	2,538,496
Debt of Alberta Capital Finance Authority (Schedule 14)	4,973,963	4,655,963
Pension obligations (Schedule 15)	1,025,706	1,011,309
Other accrued liabilities (Schedule 16)	321,225	387,628
	11,882,065	11,401,104
Net Assets		
Net assets at beginning of year	26,731,230	19,342,783
Net operating results	15,837,433	11,280,058
Net transfer to general revenues	(7,411,299)	(3,891,611)
Net assets at end of year	35,157,364	26,731,230
	$ 47,039,429	$ 38,132,334

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

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended March 31, 2007

	2007	2006 Restated (Note 11)
	($ thousands)	
Operating activities		
Net operating results	$ 15,837,433	$ 11,280,058
Non-cash items included in net operating results	(590,864)	(294,895)
	15,246,569	10,985,163
(Increase) Decrease in receivables	12,158	(131,523)
Increase in payables	217,833	421,601
Other	-	(71)
Cash provided by operating activities	15,476,560	11,275,170
Capital activities		
Purchase of tangible capital assets	(6,667)	(5,120)
Cash applied to capital activities	(6,667)	(5,120)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	12,410,336	5,493,657
Portfolio investments purchased	(20,361,058)	(10,658,954)
Repayments of loans and advances	2,610,704	559,982
Loans and advances made	(3,250,066)	(772,162)
Cash applied to investing activities	(8,590,084)	(5,377,477)
Financing activities		
Debt issues	6,948,375	5,756,145
Debt retirement	(6,628,786)	(6,566,123)
Grants for school construction debenture principal repayment	(65,682)	(69,551)
Net transfer to general revenues	(7,411,299)	(3,891,612)
Cash applied to financing activities	(7,157,392)	(4,771,141)
Increase (Decrease) in cash	(277,583)	1,121,432
Cash and temporary investments, net of bank overdraft, at beginning of year	3,980,653	2,859,221
Cash and temporary investments, net of bank overdraft, at end of year	$ 3,703,070	$ 3,980,653

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

MINISTRY OF FINANCE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

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 Cancer Prevention Legacy Fund	*Alberta Cancer Prevention Legacy Ac*t, Chapter A-14.2
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
Alberta Pensions Administration Corporation	Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

MINISTRY OF FINANCE

Note 1 (continued)

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 Cancer Prevention Legacy Fund, 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.

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.

MINISTRY OF FINANCE

Note 3 (continued)

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, 2007 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 as well as debt servicing costs. Expenses include amortization of tangible capital assets. Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

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 amounts 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 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 (see Schedule 16). 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 revenue, totaling $7,599,909 (2006 $5,999,774), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 10.5%.

Corporate income tax revenue, totaling $3,606,026 (2006 $2,916,528), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Ministry uses a five year moving average of historical corporate income tax refund ratios to estimate net corporate income tax revenue and corporate income taxes payable.

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.

MINISTRY OF FINANCE

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.

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.

MINISTRY OF FINANCE

Note 4 (continued)

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.

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

A large percentage of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund). Income and financial returns of the Heritage Fund 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 29%. The policy mix for public equity investment is 49%. 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

Obligations to outside organizations in respect of contracts entered into before March 31, 2007 amounted to $236,398 (2006 $239,067). 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:

	($ thousands)
2007-08	$ 69,464
2008-09	62,420
2009-10	43,879
2010-11	19,230
2011-12	11,800
Thereafter	29,605
	$ 236,398

NOTE 7 CONTINGENT LIABILITIES

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, 2007 amounting to $3,253 (2006 $5,523) 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, 2006, credit unions in Alberta held deposits totaling $11,785,174 (2005 $10,034,758).

At March 31, 2007, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $203,974 (2006 $144,632).

(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. Further, the Ministry was named as a defendant in sixteen (2006 twenty-two) other legal actions in addition to the one noted above. The total claimed in specific legal actions amounts to approximately $58,232 (2006 $62,242).

MINISTRY OF FINANCE

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 limits its credit exposure by dealing with counter-parties with good credit ratings.

The following is a summary of the fair values and maturity schedules of the Ministry's derivative contracts by type.

	Maturity			2007	
	Under 1 Year	1 to 3 Years	Over 3 Years	Contract Notional Amount	Net Fair Value
				($ thousands)	
Equity index swap contracts	78%	22%	-	$ 4,245,145	$ (3,827)
Interest rate swap contracts	25%	22%	53%	11,978,946	(7,850)
Forward foreign exchange contracts	100%	-	-	2,810,810	(3,014)
Cross-currency interest rate swaps	21%	43%	36%	1,247,155	36,403
Credit default swap contracts	1%	4%	95%	7,723,852	(25,696)
Bond index swap contracts	100%	-	-	1,803,921	3,067
Equity index futures contracts	89%	-	11%	1,694,386	113,435
Swap option contracts	65%	25%	10%	5,769,182	366
				$37,273,397	$ 112,884

MINISTRY OF FINANCE

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, 2007, trust funds under administration were as follows:

	2007	2006
	($ thousands)	
Local Authorities Pension Plan Fund	$15,059,522	$13,177,383
Public Service Pension Plan Fund	5,853,989	5,276,618
The Workers' Compensation Board Accident Fund	2,893,518	3,316,853
Universities Academic Pension Plan Fund	2,521,542	2,265,342
Management Employees Pension Plan Fund	2,328,842	2,042,238
Special Forces Pension Plan Fund	1,492,415	1,346,707
Regional Health Authorities and various health institutions construction accounts	977,989	754,709
Other	215,000	186,247
	$31,342,817	$28,366,097

NOTE 10 DEFINED BENEFIT PLANS

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $4,889 for the year ended March 31, 2007 (2006 $4,385).

At December 31, 2006, the Management Employees Pension Plan reported a deficiency of $6,765 (2005 $165,895) and the Public Service Pension Plan reported a surplus of $153,024 (2005 deficiency of $187,704). At December 31, 2006, the Supplementary Retirement Plan for Public Service Managers had a surplus of $3,698 (2005 $10,018).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2007, the Bargaining Unit Plan reported an actuarial surplus of $153 (2006 deficiency of $8,699) and the Management, Opted Out and Excluded Plan an actuarial surplus of $10,148 (2006 $8,309). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 11 REORGANIZATION

On December 13, 2006, a restructuring of government departments was announced. For the Ministry of Finance, this primarily involved the transfer of certain responsibilities related to the Fiscal Planning and Financial Management program to the Ministry of Treasury Board. Comparative figures for 2006 have been restated as if the Ministry had always been assigned with its current responsibilities. Net assets previously reported on March 31, 2005 totaling $19,342,320, was increased by $463 to $19,342,783.

MINISTRY OF FINANCE

NOTE 12 COMPARATIVE FIGURES

Comparative figures have been restated, where necessary, to conform to 2007 presentation.

NOTE 13 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

	2007		2006
	Budget	Actual	Actual
		($ thousands)	
Income taxes			
Personal income tax	$ 5,998,954	$ 7,599,909	$ 5,999,774
Recovery of Alberta 2005 Resource (Rebates)	-	22,280	(1,322,518)
Corporate income tax	2,227,071	3,606,026	2,916,528
	8,226,025	11,228,215	7,593,784
Other taxes			
Tobacco tax	740,000	776,205	719,091
Fuel tax	643,000	734,585	663,854
Insurance taxes	193,421	232,065	208,724
Alberta tourism levy	50,000	67,729	57,815
Special broker tax	1,750	10,134	6,016
Financial institutions capital tax	-	78	282
	1,628,171	1,820,796	1,655,782
Transfers from Government of Canada			
Unconditional subsidy	4,178	4,180	4,179
Net investment income	1,764,997	2,952,664	2,305,477
Net income from commercial operations			
Alberta Treasury Branches	216,800	274,388	198,721
Other	5,803	7,276	7,201
	222,603	281,664	205,922
Premiums, fees, and licences			
Alberta Securities Commission	18,487	23,223	19,285
Deposit guarantee fee	15,600	14,156	15,236
Alberta Insurance Council	3,525	3,866	3,334
Other	1,641	3,646	2,617
	39,253	44,891	40,472
Internal government transfers			
Lottery Fund	116,486	390,488	291,128
Other	200	-	350
	116,686	390,488	291,478
Other			
Pensions administration	26,727	27,209	25,083
Service revenue	23,756	17,523	14,643
Insurance services	9,690	9,884	8,394
Securities settlements	-	7,790	50
Refunds of expenditure and miscellaneous	5,520	2,284	5,006
	65,693	64,690	53,176
	$ 12,067,606	$ 16,787,588	$ 12,150,270

MINISTRY OF FINANCE

BUDGET

Schedule 2

	2006-07 Estimates (Restated)	Adjustments (a)	2006-07 Budget	Authorized Supplementary (b)	2006-07 Authorized Budget
			($ thousands)		
Revenues					
Income taxes	$ 8,226,025	$ -	$ 8,226,025	$ -	$ 8,226,025
Other taxes	1,628,171	-	1,628,171	-	1,628,171
Transfers from Government of Canada	4,178	-	4,178	-	4,178
Net investment income	1,764,997	-	1,764,997	-	1,764,997
Net income from commercial operations	222,603	-	222,603	-	222,603
Premiums, fees, and licences	39,253	-	39,253	-	39,253
Internal government transfers	116,686	-	116,686	-	116,686
Other	65,693	-	65,693	-	65,693
	12,067,606	-	12,067,606	-	12,067,606
Expenses					
Fiscal planning and financial management	51,431	-	51,431	-	51,431
Investment, treasury and risk management	283,249	-	283,249	46,570	329,819
Financial sector and pensions	340,120	-	340,120	-	340,120
Ministry support services	9,649	-	9,649	-	9,649
Valuation adjustments	1,000	(11,000)	(10,000)	-	(10,000)
Debt servicing costs					
General government	199,000	-	199,000	-	199,000
School boards	38,047	-	38,047	-	38,047
	922,496	(11,000)	911,496	46,570	958,066
Net operating results	$ 11,145,110	$ 11,000	$ 11,156,110	$ (46,570)	$ 11,109,540

(a) Adjustments consist of $11,000 for pension provisions excluded from the Estimates.

(b) Supplementary Estimates were approved on March 23, 2007.

MINISTRY OF FINANCE

EXPENSES BY OBJECT

Schedule 3

	2007 Budget	2007 Actual	2006 Actual (Restated)
		($ thousands)	
Salaries, wages and employee benefits	$ 87,675	$ 86,612	$ 76,172
Supplies and services	326,562	38,888	38,628
Grants	204,951	211,315	147,419
Interest and amortization of unrealized exchange gains and losses	199,080	464,181	475,976
Pension liability funding	75,200	111,857	71,780
Interest payments on corporate tax refunds	20,000	15,862	12,888
Valuation adjustments (Schedule 4)	1,000	13,865	39,539
Amortization of tangible capital assets	6,977	6,534	6,852
Other financial transactions	1,089	1,077	1,046
	922,534	950,191	870,300
Less recovery from support service arrangements with related parties (a)	38	36	88
	$ 922,496	$ 950,155	$ 870,212

(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

	2007 Budget	2007 Actual	2006 Actual
		($ thousands)	
Pension provisions	$ (11,000)	$ 14,397	$ 40,076
Provision for doubtful accounts and loans	-	(541)	960
Provision for employee benefits other than pensions	1,000	233	534
Provision for guarantees and indemnities	-	(224)	(2,031)
	$ (10,000)	$ 13,865	$ 39,539

MINISTRY OF FINANCE

CASH AND TEMPORARY INVESTMENTS

Schedule 5

	2007	2006
	($ thousands)	
Fixed-income securities [a]		
Corporate	$ 3,226,532	$ 2,658,641
Provincial, direct and guaranteed	480,029	271,093
Pooled investment funds	32,146	17,697
Government of Canada, direct and guaranteed	113,278	-
Canadian equities		
Pooled investment funds	-	5,559
	3,851,985	2,952,990
Deposit in the Consolidated Cash Investment Trust Fund [b]	1,313,427	2,511,077
Cash in bank and in transit	177,006	172,473
	$ 5,342,418	$ 5,636,540

(a) At March 31, 2007, fixed-income securities held have an average effective market yield of 4.7% (2006 3.9%) per annum. All (2006 all) of the securities have terms to maturity of less than one year.

(b) At March 31, 2007, securities held by the Consolidated Cash Investment Trust Fund have an average effective market yield of 4.36% (2006 4.0%) per annum. Eighty-three percent of the securities in the Fund mature within one year (2006 86%).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

Schedule 6

	2007	2006
	($ thousands)	
Personal income tax	$ 318,962	$ 385,506
Accrued interest and receivable from sale of investments	298,352	260,656
Lottery Fund	118,367	106,128
Fuel tax	65,640	61,056
Insurance taxes	59,601	51,973
Contributions receivable from credit union system	22,501	28,126
Tobacco tax	8,197	7,430
Tourism levy	5,910	5,180
Financial institutions capital tax	2,283	2,176
Other	1,623	6,727
	901,436	914,958
Less allowance for doubtful accounts	1,509	2,044
	$ 899,927	$ 912,914

MINISTRY OF FINANCE

PORTFOLIO INVESTMENTS

Schedule 7

	2007		2006	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
	($ thousands)			
Fixed-income securities [(a) (b)]				
Government of Canada, direct and guaranteed	$ 2,573,602	$ 2,578,566	$ 1,299,358	$ 1,294,533
Provincial, direct and guaranteed	3,275,981	3,290,229	2,613,542	2,609,756
Municipal	171,912	172,303	149,194	148,532
Corporate	8,565,882	8,568,682	4,631,375	4,611,026
Pooled investment funds	6,407,353	6,446,734	5,175,467	5,196,646
	20,994,730	21,056,514	13,868,936	13,860,493
Equities				
Pooled investment funds				
Canadian	3,384,603	3,907,893	3,098,429	3,525,135
Foreign	5,968,531	6,578,106	5,394,916	6,016,314
Real Estate	1,451,756	2,078,605	1,288,748	1,676,405
Absolute return strategies	946,772	1,022,743	642,128	645,017
	11,751,662	13,587,347	10,424,221	11,862,871
	$ 32,746,392	$ 34,643,861	$ 24,293,157	$ 25,723,364

(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, 2007, the Department held $14,587,377 (2006 $8,671,154) of public fixed-income securities at cost (Fair value $14,609,780 (2006 $8,641,489)). The securities held have an average effective market yield of 4.2% (2006 4.2%) per annum. 48% 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, 2007, the Heritage Fund held $5,024,784 (2006 $4,565,706) of public fixed-income securities at cost (Fair value $5,056,933 (2006 $4,617,292)). The securities held have an average effective market yield of 4.7% (2006 4.8%) per annum and the following term structure based on principal amount:

	2007	2006
	%	
Under 1 year	4	3
1 to 5 years	30	30
6 to 10 years	37	35
11 to 20 years	10	13
Over 20 years	19	19
	100	100

MINISTRY OF FINANCE

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 8

	2007	2006
	($ thousands)	
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,456,112	$ 1,250,190
Total revenue	1,283,640	994,949
Total expense	1,001,976	789,027
Net revenue	281,664	205,922
Accumulated surpluses at end of year	$ 1,737,776	$ 1,456,112
Represented by		
Assets		
Loans	$ 16,997,733	$ 14,846,694
Investments	1,795,243	1,485,799
Other assets	1,634,272	1,438,694
Total assets	20,427,248	17,771,187
Liabilities		
Accounts payable	364,392	373,187
Deposits	18,252,838	15,870,308
Unmatured debt	72,242	71,579
Total liabilities	18,689,472	16,315,074
	$ 1,737,776	$ 1,456,113
Accumulated surpluses at end of year		
Alberta Treasury Branches (ATB)	$ 1,623,383	$ 1,348,995
Credit Union Deposit Guarantee Corporation	112,507	105,338
N.A. Properties (1994) Ltd.	1,886	1,780
	1,737,776	1,456,113
Elimination of inter fund/agency balances	88,232	86,814
Equity in commercial enterprises at end of year	$ 1,826,008	$ 1,542,927

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 9

	2007	2006
	($ thousands)	
Agriculture Financial Services Corporation	$ 920,038	$ 884,358
Alberta Social Housing Corporation	243,175	342,584
Public Trustee	225	224
	$ 1,163,438	$ 1,227,166

MINISTRY OF FINANCE

OTHER LOANS AND ADVANCES

Schedule 10

	2007	2006
	($ thousands)	
Alberta Capital Finance Authority [(a)]	$ 4,940,340	$ 4,390,038
Alberta Heritage Savings Trust Fund Act	188,309	192,380
Farm Credit Stability Act	4,249	8,128
Board of Governors of the University of Alberta	513	909
Pratt & Whitney Canada Ltd.	-	295
University of Lethbridge Students' Union	-	216
Implemented guarantees and indemnities	118	138
Accountable advances	70	29
Judgement debts	11	11
	5,133,610	4,592,144
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	90,290	90,310
	$ 5,043,320	$ 4,501,834

(a) The fair value of the loans as at March 31, 2007 was $5,360,013 (2006 $4,814,000). Municipal loans on average yield 6.0% per annum (2006 6.4%).

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.

MINISTRY OF FINANCE

TANGIBLE CAPITAL ASSETS

Schedule 11

	2007				2006
	Equipment	Computer Hardware and Software	Leaseholds	Total	Total
Estimated useful life	10 years	5 years	10 years	($ thousands)	
Historical Cost					
Beginning of year	3,507	41,145	2,633	47,285	42,548
Additions	432	5,189	1,046	6,667	5,120
Disposals - including write-downs	(130)			(130)	(383)
	3,809	46,334	3,679	53,822	47,285
Accumulated Amortization					
Beginning of year	1,635	26,480	1,374	29,489	23,017
Amortization expense	592	5,680	265	6,537	6,852
Effect of disposals	(130)			(130)	(380)
	2,097	32,160	1,639	35,896	29,489
Net book value at March 31, 2007	1,712	14,174	2,040	17,926	17,796
Net book value at March 31, 2006	1,872	14,665	1,259	17,796	

ACCRUED INTEREST AND ACCOUNTS PAYABLE

Schedule 12

	2007	2006
	($ thousands)	
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	$ 149,934	$ 146,744
Corporate income tax receipts in abeyance	423,608	366,662
Corporate income tax refunds payable	617,309	263,842
Unearned revenue	1,179	1,137
Other	173,259	373,436
	$ 1,365,289	$ 1,151,821

MINISTRY OF FINANCE

UNMATURED DEBT

Schedule 13

	2007				2006	
	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)	4.68	0.33	$ 514,010	$ 514,415	$ 367,027	$ 366,440
Fixed rate long-term (d)	6.76	3.71	2,042,524	2,257,995	2,171,469	2,423,320
	6.34	3.09	2,556,534	2,772,410	2,538,496	2,789,760

(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 (2006 $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

	($ thousands)
2007-08	$ 348,428
2008-09	730,679
2009-10	78,342
2010-11	328,196
2011-12	455,633
Thereafter to 2016-17	621,542
	2,562,820
Unamortized discount	6,286
	$ 2,556,534

None of the debt has call provisions (2006 none).

MINISTRY OF FINANCE

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 14

	2007	2006
	($ thousands)	
Alberta Capital Finance Authority		
Canadian dollar fixed rate debt (a)	$ 4,973,963	$ 4,655,963

(a) Canadian dollar fixed rate debt includes $1,850,963 (2006 $1,920,963) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2007 (see Schedule 13 note (a)).

	2007	2006
	($ thousands)	
Fair value	$ 5,204,500	$ 5,016,000
Effective rate per annum	6.1%	6.3%

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.

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2007-08 and thereafter are as follows:

	($ thousands)
2007-08	$ 351,383
2008-09	259,294
2009-10	380,523
2010-11	160,000
2011-12	323,000
Thereafter	3,499,763
	$ 4,973,963

MINISTRY OF FINANCE

PENSION OBLIGATIONS

Schedule 15

	2007	2006
	($ thousands)	
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 722,552	$ 677,833
Members of the Legislative Assembly Pension Plan (b)	49,527	49,504
Management Employees Pension Plan (d)	-	29,046
Public Service Pension Plan (d)	-	1,543
Universities Academic Pension Plan (c)	196,121	190,291
	968,200	948,217
Obligations to pension plans for employees of organizations outside the government sector		
Special Forces Pension Plan (c)	57,506	63,092
	$ 1,025,706	$ 1,011,309

(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.

(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.

(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.

(d) The Ministry 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 and the Public Service Pension Plan.

MINISTRY OF FINANCE

Schedule 15 (continued)

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, 2005	2.25	2.75	5.00
Members of the Legislative Assembly Pension Plan	March 31, 2006	2.25	2.75	5.00
Universities Academic Pension Plan	December 31, 2004	4.00	2.75	6.75
Management Employees Pension Plan	December 31, 2004	4.00	2.75	6.75
Public Service Pension Plan	December 31, 2005	3.75	3.25	7.00
Special Forces Pension Plan	December 31, 2004	3.75	3.25	7.00

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred gains of $46,579 (2006 deferred losses $99,426), unfunded liabilities were extrapolated to March 31, 2007.

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.

OTHER ACCRUED LIABILITIES

Schedule 16

	2007	2006 Restated (Note 11)
	($ thousand)	
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 315,425	$ 381,107
Guarantees and indemnities (Schedule 17)	266	470
Vacation entitlements	5,534	5,722
Other	-	329
	$ 321,225	$ 387,628

MINISTRY OF FINANCE

GUARANTEES (a)

Schedule 17

	2007	2006	Expiry Date
	($ thousands)		
Farm Credit Stability Act [b]	$ 2,596	$ 4,603	2011
University of Calgary	861	934	2016
Centre for Engineering Research Inc.	-	273	2007
Rural utilities loans	62	183	2015
	3,519	5,993	
Less estimated liability (Schedule 16)	266	470	
	$ 3,253	$ 5,523	

(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 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, 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.

MINISTRY OF FINANCE

Schedule 18 (Continued)

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

	2007	2006
	($ thousands)	
Revenues		
Transfers	$ 390,820	$ 291,478
Interest from loans and advances to government entities	126,854	98,636
Interest from loans and advances to school boards	35,212	42,292
Charges for services	8,902	7,697
	$ 561,788	$ 440,103
Expenses		
Debt servicing costs - school boards debt	$ 38,036	$ 45,236
Transfers	89,539	34,156
Cost of services	2,966	6,181
	$ 130,541	$ 85,573
Assets		
Accounts receivable	$ 634,441	$ 539,899
Accrued interest receivable	12,166	19,641
Loans and advances to government entities	1,163,213	1,226,942
Loans and advances to school boards	341,675	411,826
	$ 2,151,495	$ 2,198,308
Liabilities		
Other accrued liabilities - future funding of school boards debt	$ 315,433	$ 381,107

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.

	2007	2006
	($ thousands)	
Expenses - incurred by others		
Accommodation and other costs	$ 3,413	$ 3,272
Corporate internal audit services	2,227	-
Legal Services	2,494	2,123
	$ 8,134	$ 5,395

DEPARTMENT OF FINANCE

Financial Statements

Year Ended March 31, 2007

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, 2007 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, 2007 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 18, 2007

DEPARTMENT OF FINANCE

STATEMENT OF OPERATIONS

Year Ended March 31, 2007

	2007		2006
	Budget	Actual	Actual
	(Schedule 4)		Restated (Note 3)
		($ thousands)	
Revenues (Schedule 1)			
Internal government transfers	$ 788,211	$ 1,755,108	$ 1,306,425
Income taxes	8,226,025	11,228,217	7,593,784
Other taxes	1,628,171	1,820,795	1,655,782
Transfers from Government of Canada	4,178	4,180	4,179
Investment income	437,146	702,421	410,097
Premiums,fees and licences	17,241	17,802	17,853
Other	31,998	23,134	23,361
	11,132,970	15,551,657	11,011,481
Expenses - directly incurred (Note 2 (B) and Schedule 21)			
Voted (Schedules 3 and 5)			
Ministry support services	9,649	9,087	8,711
Fiscal Planning and Financial Management	31,451	29,989	28,700
Investment, Treasury and Risk Management	34,074	72,898	21,682
Financial Sector and Pensions	7,603	6,691	6,159
Payments to the Alberta Heritage Savings Trust Fund	1,000,000	1,000,000	1,000,000
Debt servicing costs - school construction	38,047	38,036	45,236
	1,120,824	1,156,701	1,110,488
Statutory (Schedules 3 and 5)			
Internal Government Transfers to:			
Access to the Future Fund	33,750	39,560	11,250
Alberta Cancer Prevention Legacy Fund	500,000	500,000	-
Alberta Heritage Foundation for Medical Research Endowment Fund	150,000	150,000	200,000
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	-	250,000	750,000
Alberta Heritage Scholarship Fund	20,000	20,000	250,000
Alberta Heritage Science and Engineering Research Endowment Fund	-	100,000	100,000
Farm credit stability program	80	111	149
Interest payments on corporate tax refunds	20,000	15,862	12,888
Pension liability funding	75,200	71,909	71,846
Debt servicing costs	199,000	169,797	194,898
Valuation adjustments (Schedule 6)	(10,000)	13,865	39,557
	988,030	1,331,104	1,630,588
	2,108,854	2,487,805	2,741,076
Net Operating Results	$ 9,024,116	$ 13,063,852	$ 8,270,405

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

DEPARTMENT OF FINANCE

STATEMENT OF FINANCIAL POSITION

As At March 31, 2007

	2007	2006 Restated (Note 3)
	($ thousands)	
Assets		
Cash and temporary investments (Schedule 8)	$ 5,161,070	$ 5,024,508
Accounts and accrued interest receivable (Schedule 9)	812,451	907,472
Portfolio investments (Schedule 10)	14,587,377	8,671,154
Loans and advances to government entities (Schedule 11)	1,163,438	1,146,239
Other loans, advances and investments (Schedule 12)	6,764	11,401
Tangible capital assets (Schedule 13)	10,182	9,365
	$ 21,741,282	$ 15,770,139
Liabilities		
Bank overdraft	$ 1,639,347	$ 1,655,887
Accounts and accrued interest payable (Schedule 14)	1,112,019	743,469
Unmatured debt (Schedule 15)	2,556,534	2,538,496
Pension obligations (Schedule 16)	1,025,706	1,011,309
Other accrued liabilities (Schedule 17)	320,702	386,557
	6,654,308	6,335,718
Net Assets		
Net assets at beginning of year, as restated (Note 3)	9,434,421	5,055,627
Net operating results	13,063,852	8,270,405
Net transfer to general revenues	(7,411,299)	(3,891,611)
Net assets at end of year	15,086,974	9,434,421
	$ 21,741,282	$ 15,770,139

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

DEPARTMENT OF FINANCE

STATEMENT OF CASH FLOWS

Year Ended March 31, 2007

	2007	2006 Restated (Note 3)
	($ thousands)	
Operating transactions		
Net operating results	$ 13,063,852	$ 8,270,405
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(59,798)	49,667
Net income on investments valued at equity	(108)	(156)
Amortization of tangible capital assets (Schedule 3)	2,937	2,892
Valuation adjustments (Schedule 6)	13,865	39,557
	13,020,748	8,362,365
Decrease (increase) in receivables	95,553	(131,427)
Increase in payables	368,377	244,111
Cash provided by operating transactions	13,484,678	8,475,049
Capital transactions		
Acquisition of tangible capital assets (Schedule 5)	(3,754)	(3,404)
Cash applied to capital transactions	(3,754)	(3,404)
Investing transactions		
Disposals of portfolio investments	10,170,378	4,194,126
Portfolio investments purchased	(16,019,245)	(6,724,784)
Repayments of loans and advances		
Government entities	2,208,379	1,920,294
Other	5,029	7,764
Loans and advances		
Government entities	(2,220,952)	(1,851,385)
Other	(109)	(8)
Cash applied to investing transactions	(5,856,520)	(2,453,993)
Financing transactions		
Debt issues	6,063,858	4,542,165
Debt retirement	(6,058,179)	(5,733,519)
Voted non-budgetary disbursements to settle obligations (Schedule 5)	(65,682)	(69,551)
Net transfer to general revenues	(7,411,299)	(3,891,611)
Cash applied to financing transactions	(7,471,302)	(5,152,516)
Increase in cash	153,102	865,136
Cash and temporary investments, net of bank overdraft, at beginning of year	3,368,621	2,503,485
Cash and temporary investments, net of bank overdraft, at end of year	$ 3,521,723	$ 3,368,621

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

DEPARTMENT OF FINANCE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007 ($ 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 Cancer Prevention Legacy 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.

Incurred by Others

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

DEPARTMENT OF FINANCE

Note 2 (continued)

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.

Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. Assets and liabilities denominated in foreign currency are translated at the year-end rate of exchange. Exchange differences on transactions are included in the determination of net operating results.

Net Assets

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

DEPARTMENT OF FINANCE

Note 2 (continued)

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 revenue, totaling $7,599,909 (2006 $5,999,774), 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 10.5%. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data provided by Statistics Canada.

Corporate income tax revenue, totaling $3,606,026 (2006 $2,916,528), see schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Department uses a five year moving average of historical corporate income tax refund ratios to estimate the subsequent corporate income tax refunds. The fact that disputes over corporate tax assessments can take several years to come to resolution and that corporations are allowed to deduct losses against prior year's taxes paid makes estimation of corporate income tax refunds exceedingly difficult.

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 REORGANIZATION

On December 13, 2006, a restructuring of government departments was announced. For the Department of Finance, this primarily involved the transfer of certain responsibilities related to the fiscal planning and financial management program to the Department of Treasury Board. Comparative figures for 2006 have been restated as if the Department had always been assigned with its current responsibilities. Net assets previously reported on March 31, 2005 totaling $5,055,164, was increased by $463 to $5,055,627.

NOTE 4 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.

DEPARTMENT OF FINANCE

Note 4 (continued)

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 5 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.

(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 6 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. At December 31, 2006 credit unions in Alberta held deposits totaling $11,785,174 (2005 $10,034,758). Substantial assets are available from credit unions to safeguard the Department from risk of loss arising from its potential obligation under the Act.

DEPARTMENT OF FINANCE

Note 6 (continued)

(b) Other Commitments

		2007		2006
		($ thousands)		
Service contracts	$	11,403	$	6,048
Long-term leases		273		198
	$	11,676	$	6,246

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

	2007		
	Service Contracts	Long-term Leases	Total
	($ thousands)		
2008	6,420	91	6,511
2009	3,302	91	3,393
2010	1,589	91	1,680
2011	92	-	92
	$ 11,403	$ 273	$ 11,676

NOTE 7 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, 2007 of government entities amounting to $23,470,492 (2006 $20,948,682), and other guarantees amounting to $3,253 (2006 $5,523) 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, 2007, the Department is jointly or separately named as a defendant in seventeen legal claims (2006 twenty-three legal claims). Of the seventeen, thirteen have specified amounts totaling approximately $3,808,232. 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 2006 nineteen claims had specified amounts totaling approximately $3,812,242 including

DEPARTMENT OF FINANCE

Note 7 (continued)

one jointly named claim for $3,750,000 and four had no specified amount. Six claims totaling $1,876,859 (2006 ten totaling $2,485) are covered by the Alberta Risk Management Fund. The resulting loss, if any, from these claims cannot be determined.

In addition, at March 31, 2007, some taxes assessed were under objection and some were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 8 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.

As at March 31, 2007, trust funds under administration were as follows:

	2007	2006
	($ thousands)	
Local Authorities Pension Plan Fund	$ 15,059,522	$ 13,177,383
Public Service Pension Plan Fund	5,853,989	5,276,618
The Workers' Compensation Board Accident Fund	2,893,518	3,316,853
Universities Academic Pension Plan Fund	2,521,542	2,265,342
Management Employees Pension Plan Fund	2,328,842	2,042,238
Special Forces Pension Plan Fund	1,492,415	1,346,707
Regional Health Authorities and various health institutions construction accounts	977,989	754,709
Other	215,000	186,247
	$ 31,342,817	$ 28,366,097

NOTE 9 DEFINED BENEFIT PLANS

The Department sponsors and participates in the multi-employer pension plans; Management Employees Pension Plan and Public Service Pension Plan. 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 $4,889 for the year ended March 31, 2007 (2006 $4,385).

At December 31, 2006, the Management Employees Pension Plan reported a deficiency of $6,765 (2005 $165,895) and the Public Service Pension Plan reported a surplus of $153,024 (2005 deficiency of $187,704). At December 31, 2006, the Supplementary Retirement Plan for Public Service Managers had a surplus of $3,698 (2005 $10,018). The reported surplus or deficiency for each plan is based on the difference between the fair value of net assets held in the plan and the liability for accrued benefits.

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2007, the Bargaining Unit Plan reported a surplus of $153 (2006 deficiency of $8,699) and the Management, Opted Out and Excluded Plan reported a surplus of $10,148 (2006 $8,309). The expense for these two plans is limited to the employer's annual contributions for the year.

DEPARTMENT OF FINANCE

NOTE 10 COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform to the 2007 presentation.

NOTE 11 APPROVALS OF FINANCIAL STATEMENTS

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

DEPARTMENT OF FINANCE

SCHEDULES TO THE FINANCIAL STATEMENTS

REVENUES

Schedule 1

	2007		2006
	Budget	Actual	Actual
		($ thousands)	
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 671,725	$ 1,364,620	$ 1,015,296
Transfer from Lottery Fund	116,486	390,488	291,129
	788,211	1,755,108	1,306,425
Income taxes			
Personal income tax	5,998,954	7,599,909	5,999,774
Recovery of Alberta 2005 Resource (rebates)	-	22,282	(1,322,518)
Corporate income tax	2,227,071	3,606,026	2,916,528
	8,226,025	11,228,217	7,593,784
Other taxes			
Tobacco tax	740,000	776,204	719,091
Fuel tax	643,000	734,585	663,854
Insurance taxes	193,421	232,065	208,724
Alberta tourism levy	50,000	67,729	57,815
Financial institutions capital tax	-	78	282
Special broker tax	1,750	10,134	6,016
	1,628,171	1,820,795	1,655,782
Transfers from Government of Canada			
Unconditional subsidy	4,178	4,180	4,179
Investment income			
Farm credit stability program	725	886	1,572
Interest income	436,421	701,535	408,525
	437,146	702,421	410,097
Premiums,fees and licences			
Deposit guarantee fee	-	15,989	15,236
Insurance companies, agents and brokers	-	1,161	264
Other	17,241	652	2,353
	17,241	17,802	17,853
Other			
Recovery of expense (Schedule 2)	-	20,909	18,117
Refunds of expenditure	-	84	75
Sale of assets	-	7	12
Miscellaneous	31,998	2,134	5,157
	31,998	23,134	23,361
	$ 11,132,970	$ 15,551,657	$ 11,011,481

DEPARTMENT OF FINANCE

DEDICATED REVENUE INITIATIVES

Schedule 2

	Authorized Dedicated Revenues	2007 Actual Dedicated Revenues	(Shortfall) (a)/ Excess
		($ thousands)	
Investment, treasury and risk management	$ 28,741	$ 20,835	$ (7,906)
Fiscal planning and financial management	150	74	(76)
	$ 28,891	$ 20,909	$ (7,982)

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 to the financial statements.

DEPARTMENT OF FINANCE

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT — Schedule 3

	2007 Budget	2007 Actual	2006 Actual Restated (Note 3)
	($ thousands)		
Voted			
Salaries, wages and employee benefits	$ 52,816	$ 49,959	$ 44,181
Supplies and services	25,780	17,810	18,129
Grants	38,069	45,076	45,288
Financial transactions and other	1,089	955	86
Payments to the Alberta Heritage Savings Trust Fund	1,000,000	1,000,000	1,000,000
Pension liability funding	-	40,000	-
Amortization of tangible capital assets	3,108	2,937	2,892
Total voted expenses before recoveries	1,120,862	1,156,737	1,110,576
Less recovery from support service arrangements with related parties (a)	38	36	88
	$ 1,120,824	$ 1,156,701	$ 1,110,488
Statutory			
Internal Government Transfers to:			
Access to the Future Fund	$ 33,750	$ 39,560	$ 11,250
Alberta Cancer Prevention Legacy Fund	500,000	500,000	-
Alberta Heritage Foundation for Medical Research Endowment Fund	150,000	150,000	200,000
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	-	250,000	750,000
Alberta Heritage Scholarship Fund	20,000	20,000	250,000
Alberta Heritage Science and Engineering Research Endowment Fund	-	100,000	100,000
Farm credit stability program	80	111	149
Interest payments on corporate tax refunds	20,000	15,862	12,888
Pension liability funding	75,200	71,909	71,846
Debt servicing costs	199,000	169,797	194,898
Valuation adjustments (Schedule 6)	(10,000)	13,865	39,557
	$ 988,030	$ 1,331,104	$ 1,630,588

(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

	2006-07 Estimates	Adjustments (a)	2006-07 Budget	Authorized Supplementary Estimates (b)	2006-07 Authorized Budget
			($ thousands)		
Revenues					
Internal government transfers	$ 788,211	$ -	$ 788,211	$ -	$ 788,211
Income taxes	8,226,025	-	8,226,025	-	8,226,025
Other taxes	1,628,171	-	1,628,171	-	1,628,171
Transfers from Government of Canada	4,178	-	4,178	-	4,178
Investment income	437,146	-	437,146	-	437,146
Premiums,fees and licences	17,241	-	17,241	-	17,241
Other	31,998	-	31,998	-	31,998
	11,132,970	-	11,132,970	-	11,132,970
Expenses - Directly Incurred					
Voted					
Ministry support services	9,649	-	9,649	-	9,649
Fiscal Planning and Financial Management	31,451	-	31,451	-	31,451
Investment, Treasury and Risk Management	34,074	-	34,074	46,570	80,644
Financial Sector and Pensions	7,603	-	7,603	-	7,603
Transfers to the Alberta Heritage Savings Trust Fund	1,000,000		1,000,000	-	1,000,000
Debt servicing costs - school construction	38,047	-	38,047	-	38,047
Dedicated revenue shortfall (Schedule 2)	-	(7,982)	(7,982)	-	(7,982)
	1,120,824	(7,982)	1,112,842	46,570	1,159,412
Statutory					
Access to the Future Fund	33,750	-	33,750	-	33,750
Alberta Cancer Prevention Legacy Fund	500,000	-	500,000	-	500,000
Transfer to the Alberta Heritage Foundation for Medical Research Endowment Fund	150,000		150,000		150,000
Alberta Heritage Scholarship Fund	20,000		20,000		20,000
Farm credit stability program	80	-	80	-	80
Interest payments on corporate tax refunds	20,000	-	20,000	-	20,000
Pension liability funding	75,200	-	75,200	-	75,200
Debt servicing costs	199,000	-	199,000	-	199,000
Valuation adjustments (Schedule 6)	1,000	(11,000)	(10,000)	-	(10,000)
	999,030	(11,000)	988,030	-	988,030
	2,119,854	(18,982)	2,100,872	46,570	2,147,442
Net operating results	$ 9,013,116	$ 18,982	$ 9,032,098	$ (46,570)	$ 8,985,528
Equipment/inventory purchases	$ 3,974	$ -	$ 3,974	$ -	$ 3,974

(a) Adjustments consist of $7,982 for dedicated revenue shortfall and $11,000 for pension provisions excluded from the Estimates.

(b) Supplementary Estimates were approved on March 23, 2007.

DEPARTMENT OF FINANCE

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

Schedule 5

	2006-07 Budget	Authorized Supplementary Estimates (a)	2006-07 Authorized Budget	2006-07 Actual Expense (b)	Unexpended (Over Expended)
			($ thousands)		
VOTED EXPENSES					
Program Ministry Support Services					
- Operating Expense					
Minister's Office	$ 475	$ -	$ 475	$ 472	$ 3
Finance Deputy Minister's Office	537	-	537	657	(120)
Strategic and Business Services	7,151	-	7,151	6,799	352
Communications	651	-	651	388	263
Policy and Strategic Planning, securities Endowments and Revenue	732	-	732	689	43
Standing Policy Committee on Economic Development and Finance	103	-	103	82	21
	9,649	-	9,649	9,087	562
- Equipment/Inventory Purchases	180		180	251	(71)
	9,829	-	9,829	9,338	491
Program - Fiscal Planning and Fiscal Management					
- Operating Expense					
Tax and Revenue Administration	26,407	-	26,407	26,592	(185)
Office of Budget and Management	5,044	-	5,044	3,397	1,647
	31,451	-	31,451	29,989	1,462
- Equipment/Inventory Purchases	2,234	-	2,234	2,019	215
	33,685	-	33,685	32,008	1,677
Program - Investment, Treasury and Risk Management					
- Operating Expense					
Chief Executive Officer's Office	330	-	330	-	330
Investment Management	19,400	6,570	25,970	20,434	5,536
Investment Administration	9,987	-	9,987	8,526	1,461
Internal Audit	500	-	500	442	58
Treasury Management	2,468	40,000	42,468	42,191	277
Risk Management and Insurance	1,389	-	1,389	1,305	84
	34,074	46,570	80,644	72,898	7,746
- Equipment/Inventory Purchases	1,560	-	1,560	1,484	76
	35,634	46,570	82,204	74,382	7,822
Program - Financial Sector and Pensions					
- Operating Expense					
Assistant Deputy Minister's Office	2,347	-	2,347	1,920	427
Regulations of Pensions, Insurance and Financial Institutions	2,874	-	2,874	2,773	101
Automobile Insurance Rate Board	1,113	-	1,113	917	196
Pension Policy	862	-	862	776	86
Corporate Management Services to Alberta Capital Finance Authority	407	-	407	305	102
	7,603	-	7,603	6,691	912

DEPARTMENT OF FINANCE

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

Schedule 5 (cont'd)

	2006-07 Budget	Authorized Supplementary Estimates (a)	2006-07 Authorized Budget	2006-07 Actual Expense (b)	Unexpended (Over Expended)
			($ thousands)		
Program - Payments to Alberta Heritage Savings Trust Fund					
- Operating Expense	1,000,000	-	1,000,000	1,000,000	-
Program - Voted Debt Servicing Costs - Grants to School School Construction Debenture Interest Payment					
- Operating Expense	38,047	-	38,047	38,036	11
	1,124,798	46,570	1,171,368	1,160,455	10,913
Dedicated Revenue Shortfall (Schedule 2)	(7,982)	-	(7,982)	-	(7,982)
	1,116,816	46,570	1,163,386	1,160,455	2,931
Summary					
Program Operating Expense	$ 1,120,824	$ 46,570	$ 1,167,394	$ 1,156,701	$ 10,693
Equipment/Inventory Purchases	3,974	-	3,974	3,754	220
	$ 1,124,798	$ 46,570	$ 1,171,368	$ 1,160,455	$ 10,913
STATUTORY EXPENSES					
Internal Government Transfers to:					
Access to the Future Fund	$ 33,750	$ -	$ 33,750	$ 39,560	$ (5,810)
Alberta Cancer Prevention Legacy Fund	500,000	-	500,000	500,000	-
Alberta Heritage Foundation for Medical Endowment Fund	150,000	-	150,000	150,000	-
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	-	-	-	250,000	(250,000)
Alberta Heritage Scholarship Fund	20,000	-	20,000	20,000	-
Alberta Heritage Science and Engineering Research Endowment Fund	-	-	-	100,000	(100,000)
Farm credit stability program	80	-	80	111	(31)
Interest payments on corporate tax refunds	20,000	-	20,000	15,862	4,138
Pension liability funding	75,200	-	75,200	71,909	3,291
Debt servicing costs	199,000	-	199,000	169,797	29,203
Valuation adjustments (Schedule 6)	(10,000)	-	(10,000)	13,865	(23,865)
	$ 988,030	$ -	$ 988,030	$ 1,331,104	$ (343,074)
Voted Non-Budgetary Disbursements					
Grants for school construction debenture principal repayment	$ 65,793	$ -	$ 65,793	$ 65,682	$ 111

(a) Supplementary Estimates were approved on March 23, 2007.

(b) Includes achievement bonus of $3,768

DEPARTMENT OF FINANCE

VALUATION ADJUSTMENTS

Schedule 6

	2007 Budget	2007 Actual	2006 Actual Restated (Note 3)
	($ thousands)		
Pension provisions	$ (11,000)	$ 14,397	$ 40,076
Provision for doubtful accounts and loans	1,000	(541)	960
Provision for employee benefits other than pensions	-	233	552
Provision for guarantees and indemnities	-	(224)	(2,031)
	$ (10,000)	$ 13,865	$ 39,557

SALARY AND BENEFITS DISCLOSURE

Schedule 7

	2007				2006
	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	Total	Total
	($ thousands)				
Senior Officials					
Deputy Minister of Finance (4)(5)	$ 206,000	$ 47,709	$ 44,885	$ 298,594	$ 298,605
Executives					
Assistant Deputy Minister - Pensions, Insurance and Financial Institutions	157,044	57,572	36,026	250,642	244,945
Assistant Deputy Minister - Treasury and Risk Management	157,044	27,816	37,564	222,424	204,225
Assistant Deputy Minister - Revenue	143,016	21,109	34,730	198,855	154,386
Assistant Deputy Minister - Budget and Fiscal Planning (6)	67,087	19,484	17,224	103,795	-
Chief Investment Officer (7)	292,274	251,545	59,890	603,709	519,653
Chief Administrative Officer/ Acting Chief Administrative Officer (7)(8)	137,281	66,118	19,612	223,011	204,682
Executive Director, Strategic and Business Services	128,568	21,507	31,188	181,263	170,396
Director, Human Resources	128,568	18,020	31,197	177,785	170,441

(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, supplementary retirement plan, 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) New position effective October 10, 2006
(7) Base salary includes regular base pay and market modifier.
(8) Acting Chief Administrative Officer occupied position starting September 1, 2006.

DEPARTMENT OF FINANCE

CASH AND TEMPORARY INVESTMENTS

Schedule 8

	2007	2006
	($ thousands)	
Fixed-income securities (a)		
Corporate	$ 3,226,532	$ 2,658,641
Provincial, direct and guaranteed	480,029	261,141
Alberta, guaranteed	-	9,952
Government of Canada, direct and guaranteed	113,278	-
	3,819,839	2,929,734
Deposit in Consolidated Cash Investment Trust Fund (b)	1,164,480	1,922,301
Cash in bank and in transit	176,751	172,473
	$ 5,161,070	$ 5,024,508

(a) Fixed-income securities have an average effective yield of 4.7% (2006 3.9%) per annum. All of the securities have terms to maturity of less than one year (2006 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, 2007, securities held by the Fund have an average effective yield of 4.36% per annum (2006 3.96%). Eighty-three percent of the securities in the Fund mature within one year (2006 Eighty-six percent).

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

Schedule 9

	2007	2006
	($ thousands)	
Personal income tax	$ 318,962	$ 385,506
Lottery Fund	110,112	106,128
Accrued interest receivable	123,732	93,736
Alberta Treasury Branches	88,231	86,814
Alberta Heritage Savings Trust Fund	-	77,684
Fuel tax	65,640	61,056
Insurance corporations tax	59,601	51,973
Contributions receivable from credit union deposit corporation (a)	22,501	28,126
Tobacco tax	8,197	7,430
Alberta Tourism Levy	5,910	5,180
Other	7,984	3,137
Financial institutions capital tax	2,283	2,176
Swap accruals	764	535
	813,917	909,481
Less allowance for doubtful accounts	1,466	2,009
	$ 812,451	$ 907,472

(a) Contributions are receivable under the Credit Union Restructuring Agreement maturing in 2010.

DEPARTMENT OF FINANCE

PORTFOLIO INVESTMENTS

Schedule 10

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
	($ thousands)			
Fixed-income securities (a)				
Corporate	$ 8,565,882	$ 8,568,682	$ 4,631,375	$ 4,611,026
Provincial, direct and guaranteed	3,275,981	3,290,229	2,613,542	2,609,756
Government of Canada, direct and guaranteed	2,573,602	2,578,566	1,277,043	1,272,175
Municipal	171,912	172,303	149,194	148,532
	$ 14,587,377	$ 14,609,780	$ 8,671,154	$ 8,641,489

(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% (2006 4.2%) per annum and the following terms to maturity: under one year: 48%; one to five years: 47%; five to ten years: 4%; over ten years: 1%.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 11

	2007	2006
	($ thousands)	
Agriculture Financial Services Corporation	$ 920,039	$ 884,358
Alberta Social Housing Corporation	243,175	261,657
Public Trustee	224	224
	$ 1,163,438	$ 1,146,239

OTHER LOANS, ADVANCES AND INVESTMENTS

Schedule 12

	2007	2006
Loans and advances		
Farm Credit Stability Act	$ 4,249	$ 8,128
Board of Governors of the University of Alberta	514	909
Pratt & Whitney Canada Ltd.	-	295
University of Lethbridge Students' Union	-	216
Implemented guarantees and indemnities	117	138
Judgement debts	11	11
Accountable advances	70	29
	4,961	9,726
Less allowance for doubtful loans and advances	129	149
	4,832	9,577
Investments		
N.A. Properties (1994) Ltd.	1,887	1,779
Alberta Capital Finance Authority	45	45
	1,932	1,824
	$ 6,764	$ 11,401

DEPARTMENT OF FINANCE

TANGIBLE CAPITAL ASSETS

Schedule 13

	Estimated Useful Life	2007 Cost	2007 Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
		($ thousands)			
Computer hardware and software	5 years	$ 28,404	$ 18,222	$ 10,182	$ 9,365

ACCOUNTS AND ACCRUED INTEREST PAYABLE

Schedule 14

	2007	2006
	($ thousands)	
Corporate income tax receipts in abeyance	$ 423,734	$ 366,662
Corporate income tax refunds payable	617,309	263,842
Accrued interest on unmatured debt	30,100	31,537
Alberta Heritage Savings Trust Fund	7,696	-
Other	33,180	81,428
	$ 1,112,019	$ 743,469

UNMATURED DEBT

Schedule 15

	2007				2006	
	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)	4.68	0.33	$ 514,010	$ 514,415	$ 367,027	$ 366,440
Fixed rate long-term (d)	6.76	3.71	2,042,524	2,257,995	2,171,469	2,423,320
	6.34	3.09	$ 2,556,534	$ 2,772,410	$ 2,538,496	$ 2,789,760

(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 (2006 $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 2007-08, and thereafter are as follows:

	($ thousands)
2007-08	$ 348,428
2008-09	730,679
2009-10	78,342
2010-11	328,196
2011-12	455,633
Thereafter	621,542
	2,562,820
Unamortized discount	(6,286)
	$ 2,556,534

None of the debt has call provisions (2006 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, 2007, 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.

	2007		2006	
	Notional Amount (1)	Net Fair Value	Notional Amount	Net Fair Value
	($ thousands)			
Interest rate swaps	$ 275,000	4,780	$ 275,000	$ 7,303

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

DEPARTMENT OF FINANCE

PENSION OBLIGATIONS

Schedule 16

The Department's pension obligations are related to the following pension plans as described below.

	2007	2006
	($ thousands)	
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 722,552	$ 677,833
Members of the Legislative Assembly Pension Plan (b)	49,527	49,504
Universities Academic Pension Plan (c)	196,121	190,291
Management Employees Pension Plan (d)	-	29,046
Public Service Pension Plan (d)	-	1,543
	968,200	948,217
Obligations to pension plans for employees of organizations outside the government sector		
Special Forces Pension Plan (c)	57,506	63,092
	$ 1,025,706	$ 1,011,309

(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) 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.

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.

(d) 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 and the Public Service Pension Plan.

For Management Employees, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 7.2% of pensionable earnings shared between employees and employers until December 31, 2018. Current services costs are funded by employers and employees. The government guarantees payment of all benefits arising from service before 1994.

DEPARTMENT OF FINANCE

PENSION OBLIGATIONS

Schedule 16 (cont'd)

For Public Service, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 2.92% of pensionable earnings shared equally between employees and employers until December 31, 2020. Current services costs are funded by employers and employees.

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	December 31, 2005	2.25	2.75	5.00
Members of the Legislative Assembly Pension Plan	March 31, 2006	2.25	2.75	5.00
Public Service Pension Plan	December 31, 2005	3.75	3.25	7.00
Management Employees Pension Plan	December 31, 2004	4.00	2.75	6.75
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

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including net deferred gains of $46,579 (2006 deferred loss $99,426), unfunded liabilities were extrapolated to March 31, 2007.

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.

OTHER ACCRUED LIABILITES

Schedule 17

	2007	2006 Restated (Note 3)
	($ thousands)	
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 315,425	$ 381,107
Guarantees and indemnities (Schedule 19)	266	470
Vacation entitlements	4,668	4,585
Other	343	395
	$ 320,702	$ 386,557

DEPARTMENT OF FINANCE

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 18

	Department of Finance	Others	Total 2007	Total 2006
	($ thousands)			
Debentures				
Alberta Capital Finance Authority	$ -	$ 4,973,963	$ 4,973,963	$ 4,655,963
Alberta Social Housing Corporation	243,175	77,263	320,438	421,096
	243,175	5,051,226	5,294,401	5,077,059
Deposits				
Alberta Treasury Branches	516	18,252,838	18,253,354	15,871,623
	$ 243,691	$ 23,304,064	$ 23,547,755	$ 20,948,682

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	2007	2006
Alberta Capital Finance Authority	December 31, 2006	Shareholders' Equity	$ 15,738	$ 11,737
Alberta Social Housing Corporation	March 31, 2007	Surplus	$ 493,492	$ 376,395
Alberta Treasury Branches	March 31, 2007	Equity	$ 1,623,383	$ 1,348,995

OTHER GUARANTEES (a)

Schedule 19

	2007	2006	Date
	($ thousands)		
Farm Credit Stability Act (b)	$ 2,596	$ 4,603	2011
Centre for Engineering Research Inc.	-	273	2007
University of Calgary	861	934	2016
Rural utilities loans	62	183	2015
	3,519	5,993	
Less estimated liability (Schedule 17)	266	470	
	$ 3,253	$ 5,523	

(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.

DEPARTMENT OF FINANCE

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 Assistant Deputy Minister of Finance, Pension, Insurance and Financial Institutions is a director of the Alberta Pensions Administration Corporation and the Deputy Minister of Finance is a director of 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. Neither of these two officials received 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 $15,738,000 at December 31, 2006 (2005 $11,737,000), to municipal and other shareholders, which have borrowed money from the Corporation. During the 2006-07 fiscal year, the Department paid $103,718,000 (2006 $114,787,000) 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.

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.

DEPARTMENT OF FINANCE

RELATED PARTY TRANSACTIONS

Schedule 20 (cont'd)

	Entities in the Ministry		Other Entities	
	2007	2006	2007	2006
	($ thousands)			
Revenues				
Transfers	$ 1,364,620	$ 1,015,296	$ 390,488	$ 291,128
Interest	3,335	3,424	66,817	65,559
Charges for services	19,937	19,634	83	231
	$ 1,387,892	$ 1,038,354	$ 457,388	$ 356,918
Expenses				
Cost of services	$ 2,027,123	$ 2,311,349	$ 79,468	$ 48,429
Assets				
Accounts receivable	$ 88,632	$ 164,931	$ 110,112	$ 106,127
Accrued interest receivable	826	857	12,166	13,593
Loans, advances and investments	1,932	1,824	1,163,214	1,146,014
	$ 91,390	$ 167,612	$ 1,285,492	$ 1,265,734
Liabilities				
Accounts and accrued interest payable	$ 7,696	$ 12	$ -	$ -
School Construction Debentures	-	-	315,425	381,107
	$ 7,696	$ 12	$ 315,425	$ 381,107

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	
	2007	2006
	($ thousands)	
Expenses - incurred by others		
Accommodation and air travel	$ 3,413	$ 3,377
Corporate and internal audit services	2,191	-
Legal services	2,494	2,123
	$ 8,098	$ 5,500

DEPARTMENT OF FINANCE

ALLOCATED COSTS BY PROGRAM

Schedule 21

Program	Expenses(1)	Expenses incurred by Others (2)	Valuation Adjustments (3)	Total 2007 (4)	Total 2006 Restated (Note 3)
			($ thousands)		
Ministry support services	$ 9,087	$ 3,113	$ 129	$ 12,329	$ 9,623
Fiscal planning and fiscal management	29,989	2,157	(526)	31,620	32,217
Investment, treasury and risk management	72,898	2,017	(70)	74,845	21,317
Financial sector and pensions	6,691	811	(65)	7,437	7,076
Payments to Alberta Heritage Savings Trust Fund	1,000,000	-	-	1,000,000	1,000,000
Transfers and debt servicing costs and pensions	1,355,275	-	14,397	1,369,672	1,676,343
	$ 2,473,940	$ 8,098	$ 13,865	$ 2,495,903	$ 2,746,576

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

(2) Includes accommodation and air travel $3,413, corporate and audit services $2,191 and legal services $2,494.

(3) Includes vacation pay $249, banked overtime $(16), doubtful accounts $(765) and pension provisions of $14,397.

(4) Total allocated costs of $2,495,903 are comprised of total expenses per Statement of Operations amounting to $2,487,805 and expenses incurred by other amounting to $8,098.

ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2007

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2007 and the statements of operations and net assets and cash flows for the nine months 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, 2007 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 18, 2007

ALBERTA CANCER PREVENTION LEGACY FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 490,830	$ -
Net Assets (Note 4)	$ 490,830	$ -

STATEMENT OF OPERATIONS AND NET ASSETS

For the Nine Months Ended March 31, 2007

	2007		2006
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 5)	$ 15,000	$ 15,830	$ -
Transfers from the General Revenue Fund (Note 4a)	500,000	500,000	-
Transfers to the Ministry of Health and Wellness (Note 4b)	(25,000)	(25,000)	-
Change in net assets	$ 490,000	490,830	-
Net assets at beginning of period		-	-
Net assets at end of period		$ 490,830	$ -

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

ALBERTA CANCER PREVENTION LEGACY FUND

STATEMENT OF CASH FLOWS

For the Nine Months Ended March 31, 2007

	2007	2006
	($ thousands)	
Operating transactions		
Net investment income	$ 15,830	$ -
Cash provided by operating transactions	15,830	-
Investing transactions		
Purchase of investments	(479,175)	-
Cash applied to investing transactions	(479,175)	-
Transfers		
Transfers from the General Revenue Fund	500,000	-
Transfers to the Foundation	(25,000)	-
Cash provided by transfers	475,000	-
Increase in cash	11,655	-
Cash at beginning of period	-	-
Cash at end of period	$ 11,655	$ -
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 11,655	$ -

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

ALBERTA CANCER PREVENTION LEGACY FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007 ($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Cancer Prevention Legacy Fund ("the Fund") operates under the authority of the *Alberta Cancer Prevention Legacy Act* (the Act), Chapter A-14.2, Revised Statutes of Alberta 2006. The purpose of the Act is to support and encourage cancer prevention initatives such as research, education, public policy development and social marketing initiatives. The Fund commenced operations on July 7, 2006.

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

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 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, as reported in Note 5, 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.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. Exchange differences on transactions are included in the determination of investment income.

ALBERTA CANCER PREVENTION LEGACY FUND

Note 2 (continued)

(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.

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

Fair value of 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 period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

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

NOTE 3 PORTFOLIO INVESTMENTS

	2007			2006	
	Cost	Fair Value	%	Cost	Fair Value
	($ thousands)			($ thousands)	
Fixed-Income Securities					
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 11,655	$ 11,655	2.4	$ -	$ -
Short Term Bond Pool (b)	479,175	478,925	97.6	-	-
Total Investments	$ 490,830	$ 490,580	100.0	$ -	$ -

(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, 2007, securities held by the Fund have an average effective market yield of 4.36% per annum.

(b) The Fund holds a 6.0% interest in the Short Term Bond Pool, which holds fixed-income securities. As at March 31, 2007, securities held by the Pool have an average effective market yield of 4.23% per annum and the following term structure based on principal amount: under 1 year: 7%; 1 to 5 years: 84%; 5 to 10 years: 8%; 10 to 20 years: 0%; over 20 years: 1%.

ALBERTA CANCER PREVENTION LEGACY FUND

NOTE 4 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 on July 7, 2006:

	Cumulative since 2006	
	2007	**2006**
	($ thousands)	
Transfers from the General Revenue Fund (a)	$ 500,000	$ -
Accumulated investment income	15,830	-
Accumulated transfers to the Ministry (b)	(25,000)	-
Net Assets, at cost	$ 490,830	**$ -**
Net Assets, at fair value	$ 490,580	**$ -**

(a) In accordance with section 5 of the *Alberta Cancer Prevention Legacy Act* (the Act), the Fund received $500 million from the GRF during the period.

(b) In accordance with section 6(1) of the Act, the Fund paid out $25 million to the Ministry of Health and Wellness.

NOTE 5 NET INVESTMENT INCOME

(nine months ended March 31, 2007)

	2007	**2006**
	($ thousands)	
Deposit and fixed-income securities	$ 15,831	$ -
Direct administrative expenses	(1)	-
Net income	$ 15,830	**$ -**

Investment income is comprised of interest, amortization of discount or premium, and realized gains and losses.

NOTE 6 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2007

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, 2007 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, 2007 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 18, 2007

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 1,369,616	$ 1,119,993
Receivable from sale of investments	700	9,500
	$ 1,370,316	$ 1,129,493
Liabilities		
Liabilities for investment purchases	$ 503	$ -
Administration expense payable	93	3
	596	3
Net Assets (Note 6)	1,369,720	1,129,490
	$ 1,370,316	$ 1,129,493

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2007

	2007		2006
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 7)	$ 60,635	$ 145,230	$ 108,049
Transfers from the General Revenue Fund (Note 6b)	150,000	150,000	200,000
Transfers to the Alberta Heritage Foundation for Medical Research (Note 6c)	(55,000)	(55,000)	(50,000)
Change in net assets	$ 155,635	240,230	258,049
Net assets at beginning of year		1,129,490	871,441
Net assets at end of year		$ 1,369,720	$ 1,129,490

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, 2007

	2007	2006
	($ thousands)	
Operating transactions		
Net investment income	$ 145,230	$ 108,049
Non-cash items included in net investment income	(14,843)	(7,524)
	130,387	100,525
Decrease (increase) in receivables	8,800	(9,478)
Increase in payables	593	3
Cash provided by operating transactions	139,780	91,050
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	139,473	64,000
Purchase of investments	(364,160)	(315,046)
Cash applied to investing transactions	(224,687)	(251,046)
Transfers		
Transfers from the General Revenue Fund	150,000	200,000
Transfers to the Foundation	(55,000)	(50,000)
Cash provided by transfers	95,000	150,000
Increase (decrease) in cash	10,093	(9,996)
Cash at beginning of year	7,636	17,632
Cash at end of year	$ 17,729	$ 7,636
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 17,729	$ 7,636

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, 2007 ($ 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, as reported in Note 7, is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used.

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, credit default swap contracts and options, 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 is 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 period-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 FOUNDATION FOR MEDICAL 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 analysis.

(iv) The fair value of real estate investments is 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 Pool investments is estimated by external managers.

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

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

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency is 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, equity index futures contracts and swap option contracts. As disclosed in Note 5, 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 based on quoted market prices.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

	2007			2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	($ thousands)			($ thousands)		
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 17,729	$ 17,729	1.2	$ 7,636	$ 7,636	0.6
Currency Alpha Pool (b)	1,902	2,113	0.1	1,142	1,173	0.1
Tactical Asset Allocation Pool (c)	5,031	4,945	0.3	2,146	2,074	0.2
	24,662	24,787	1.6	10,924	10,883	0.9
Absolute Return Strategies (d)	71,454	76,766	5.2	40,973	41,110	3.4
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	308,818	309,080	20.7	252,669	251,302	20.8
Private Mortgage Pool (f)	37,790	40,073	2.7	37,653	40,106	3.3
	346,608	349,153	23.4	290,322	291,408	24.1
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (g)	104,189	148,067	10.0	86,748	112,874	9.3
Foreign Private Real Estate Pool (h)	6,382	6,401	0.4	3,290	3,226	0.3
	110,571	154,468	10.4	90,038	116,100	9.6
Private Income (i)	14,917	16,122	1.1	5,576	5,594	0.5
Timberland (j)	4,242	5,919	0.4	4,440	4,182	0.3
Equities						
Canadian Equities **(Schedule C)**						
Canadian Structured Equity Pool (k)	100,073	98,879	6.7	103,609	103,352	8.5
Canadian Pooled Equity Fund (l)	54,987	67,967	4.6	49,290	64,376	5.3
Canadian Equity Enhanced Index Pool (m)	30,221	34,730	2.3	24,587	29,868	2.5
Canadian Large Cap Pool (n)	24,685	24,457	1.6	23,705	23,441	1.9
Growing Equity Income Pool (o)	11,482	13,895	0.9	10,015	14,300	1.1
Canadian Multi-Cap Pool (p)	29,329	29,856	2.0	16,842	17,045	1.4
Tactical Asset Pool Canadian futures contracts (c)	(20,452)	(20,452)	(1.4)	(10,840)	(10,840)	(1.0)
	230,325	249,332	16.7	217,208	241,542	19.7
United States Equities **(Schedule D)**						
US Structured Equity Pool (q)	162,246	176,790	11.9	-	-	-
US Small/Mid Cap Equity Pool (r)	30,046	34,028	2.3	26,457	31,037	2.6
Portable Alpha United States Equity Pool (s)	59,595	63,169	4.2	30,068	29,841	2.5
Growing Equity Income Pool (o)	4,532	4,576	0.3	4,504	4,430	0.4
S&P 500 Index Fund	-	-	-	152,761	159,684	13.2
Tactical Asset Pool US futures contracts (c)	20,223	20,223	1.4	10,945	10,945	1.0
	276,642	298,786	20.1	224,735	235,937	19.7
Non-North American Equities **(Schedule E)**						
EAFE Active Equity Pool (t)	194,921	214,087	14.4	167,368	185,893	15.4
EAFE Structured Equity Pool (u)	58,337	57,703	3.9	46,112	50,471	4.2
Emerging Market Equity Pool (v)	11,450	15,027	1.0	9,192	12,610	1.0
	264,708	286,817	19.3	222,672	248,974	20.6
Private Equities (i)	25,487	27,363	1.8	13,105	14,204	1.2
Total Investments (w)	$ 1,369,616	$ 1,489,513	100.0	$ 1,119,993	$ 1,209,934	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, 2007, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2007	**2006**
Absolute Return Strategy Pool	7.5	6.4
Canadian Equity Enhanced Equity Pool	2.5	2.3
Canadian Large Cap Equity Pool	1.2	1.3
Canadian Multi-Cap Pool	4.4	4.7
Canadian Pooled Equity Fund	5.1	5.3
Canadian Structured Equity Pool	4.5	3.9
Currency Alpha Pool	3.4	2.0
EAFE Active Equity Pool	3.3	3.2
EAFE Passive Equity Pool	7.2	7.2
EAFE Structured Equity Pool	4.9	2.6
Emerging Markets Equity Pool	2.2	2.1
Foreign Private Equity Pool (02)	7.0	3.5
Foreign Private Equity Pool (05)	7.2	7.2
Foreign Private Real Estate Pool	6.4	6.4
Global Private Equity Pool (07)	8.2	-
Growing Equity Income Pool	5.1	5.3
Portable Alpha United States Equity Pool	9.0	6.9
Private Equity Pool	6.6	6.6
Private Equity Pool (02)	7.5	5.3
Private Equity Pool (04)	6.4	5.5
Private Income Pool	6.0	1.7
Private Income Pool 2	6.9	6.9
Private Mortgage Pool	2.6	2.9
Private Real Estate Pool	3.2	3.0
Standard & Poor's 500 Index Fund	-	7.0
Tactical Asset Allocation Pool	7.8	6.4
Timberland Pool	6.5	6.5
US Small/Mid Cap Equity Pool	2.6	2.5
US Structured Equity Pool	4.1	-
Universe Fixed Income Pool	2.9	2.6

(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, 2007, securities held by the Fund have an average effective market yield of 4.36% per annum (2006: 3.96% per annum).

(b) 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.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 3 (continued)

(c) 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, 2007, 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.

(d) 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.

(e) The Universe Fixed Income Pool (formerly 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, 2007, securities held by the Pool have an average effective market yield of 4.5% per annum (2006: 4.7% per annum) and the following term structure based on principal amount: under 1 year: 3% (2006: 2%); 1 to 5 years: 33% (2006: 34%); 5 to 10 years: 34% (2006: 33%); 10 to 20 years: 11% (2006: 12%); and over 20 years: 19% (2006: 19%).

(f) 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 (94.0%) and provincial bond residuals (6.0%). 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, 2007, securities held by the Pool have an average effective market yield of 5.09% per annum (2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 6% (2006: 2%); 1 to 5 years: 15% (2006: 19%); 5 to 10 years: 54% (2006: 50%); 10 to 20 years: 5% (2006: 10%); and over 20 years: 20% (2006: 19%).

(g) 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.

(h) 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.

(i) 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%. 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, the Foreign Private Equity Pool 2005 and the Global Private Equity Pool 2007. 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.

(j) 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%.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 3 (continued)

(k) The Canadian Structured Equity Pool (formerly 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) is 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.

(l) 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.

(m) 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. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(k)).

(n) 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.

(o) 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.

(p) 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 is used as the underlying securities to support the index swaps of the pool (see Note 3(k)).

(q) On November 30, 2006, all of the investments held in the S&P 500 Index Pool were transferred to the newly created US Structured Equity Pool. Publicly traded U.S. equities held in the U.S. Structured Equity Pool 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 is used as the underlying securities to support the index swaps of the pool (see Note 3(k)).

(r) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded U.S. 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.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 3 (continued)

(s) 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 Standard & Poor's (S&P) 500 Index over a four-year period.

(t) 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.

(u) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3(k)). During the year, the EAFE Passive Equity Pool was combined with the EAFE Structured Equity Pool.

(v) 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 Morgan Stanley Capital Index Emerging Markets Free (MSCI EMF) Index over a four-year period.

(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 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 2006-2007 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 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

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 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.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

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, 2007.

	Maturity			2007		2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)(c)	Notional Amount (a)	Fair Value (b)(c)
				($ thousands)			
Equity index swap contracts	78%	22%	-	$ 373,027	$ (421)	$ 228,823	$ 4,338
Interest rate swap contracts	8%	53%	39%	215,790	(607)	87,123	(221)
Forward foreign exchange contracts	100%	-	-	197,840	(283)	111,931	(100)
Cross-currency interest rate swaps	21%	43%	36%	102,783	3,130	62,412	4,761
Credit default swap contracts	1%	4%	95%	476,313	(1,542)	87,798	213
Bond index swap contracts	100%	-	-	110,684	297	18,790	2,420
Equity index futures contracts	100%	-	-	114,457	2,782	62,568	1,312
Swap option contracts	65%	25%	10%	351,191	22	-	-
				$ 1,942,085	$ 3,378	$ 659,445	$ 12,723

(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).

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

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

(c) Included in the Fair Value are derivative-related receivables and derivative-related payables of $8,438 and $5,060 respectively.

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	
	2007	**2006**
	($ thousands)	
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 300,000	$ 300,000
Transfers from the General Revenue Fund (b)	350,000	200,000
Accumulated investment income	1,698,720	1,553,490
Accumulated transfers to the Foundation (c)	(979,000)	(924,000)
Net Assets, at cost	$ 1,369,720	$ 1,129,490
Net Assets, at fair value	$ 1,489,617	$ 1,219,431

(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 $350 million has been received to date, including $150 million during the year.

(c) In accordance with section 8(1) of the Act, the Fund paid out $55 million to the Foundation during the year.

NOTE 7 NET INVESTMENT INCOME

	2007	**2006**
	($ thousands)	
Non-North American equities	$ 50,484	$ 28,043
Canadian equities	35,707	46,445
Deposit and fixed-income securities	19,960	18,160
United States equities	18,572	5,594
Real estate	12,187	6,876
Private equities	6,531	736
Absolute return strategies	1,061	1,680
Private income	863	807
Timberland	161	(81)
Investment income	145,526	108,260
Direct administrative expense (Note 8)	(296)	(211)
Net investment income	$ 145,230	$ 108,049

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Note 7 (continued)

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, 2007 includes writedowns of $3,320 (2006: $3,449).

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.

	2007	2006
	($ thousands)	
Direct fund expenses (Note 7)	$ 296	$ 211
External management fees	3,670	2,811
Internal management expenses	412	379
	$ 4,378	$ 3,401
Expenses as a percentage of net assets at fair value	0.29%	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	12.8%	8.5%
Benchmark return (1)	11.7%	7.7%

(1) The overall benchmark return for the year ended March 31, 2007 is a product of the weighted average policy sector weights and the sector benchmark returns.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 10 COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform to 2007 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, 2007

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 363	$ 363	$ 1,562	$ 1,562
Fixed-income securities (a)				
Corporate, public and private	226,506	226,133	170,451	170,068
Government of Canada, direct and guaranteed	74,480	74,018	69,056	68,132
Provincial, direct and guaranteed:				
Alberta	109	113	114	120
Other provinces	43,307	46,662	44,362	46,679
Municipal	118	139	1,202	1,272
	344,520	347,065	285,185	286,271
Receivable from sale of investments and accrued investment income	3,440	3,440	5,973	5,973
Accounts payable and accrued liabilities	(1,715)	(1,715)	(2,398)	(2,398)
	1,725	1,725	3,575	3,575
	$ 346,608	$ 349,153	$ 290,322	$ 291,408

(a) Fixed income securities held as at March 31, 2007 have an average effective market yield of 4.57% per annum (2006: 4.77% per annum) and the following term structure based on principal amount:

	2007	2006
	%	
under 1 year	4	3
1 to 5 years	31	31
5 to 10 years	36	35
10 to 20 years	10	12
over 20 years	19	19
	100	100

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 164	$ 164	$ 62	$ 62
Real estate (a)				
Office	44,857	71,035	40,949	55,803
Retail	32,292	46,689	27,597	37,334
Industrial	16,722	18,496	10,477	11,744
Residential	4,903	6,470	4,812	5,080
	98,774	142,690	83,835	109,961
Foreign Private Real Estate Pool	6,401	6,382	3,290	3,226
Participation units	5,141	5,141	2,618	2,618
Accrued income and accounts receivable	91	91	233	233
	$ 110,571	$ 154,468	$ 90,038	$ 116,100

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

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 61,026	$ 83,446	$ 52,635	$ 66,955
Alberta	24,467	43,412	19,111	30,780
Quebec	11,428	13,102	10,381	10,054
British Columbia	1,853	2,730	1,708	2,172
	$ 98,774	$ 142,690	$ 83,835	$ 109,961

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF EFFECTIVE INVESTMENTS IN CANADIAN EQUITIES — Schedule C

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 1,653	$ 1,653	$ 1,250	$ 1,250
Public equities (a) (b)				
Consumer discretionary	15,546	15,364	14,046	12,995
Consumer staples	7,046	6,616	7,566	7,255
Energy	60,268	62,976	57,636	68,659
Financials	73,448	81,780	65,189	72,656
Health care	1,876	1,686	3,130	2,603
Industrials	11,143	12,806	12,855	14,801
Information technology	9,510	10,308	10,668	9,864
Materials	33,764	38,125	30,370	36,031
Telecommunication services	12,903	14,878	10,298	11,314
Utilities	2,198	2,170	2,548	2,462
	227,702	246,709	214,306	238,640
Receivable from sale of investments and accrued investment income	3,731	3,731	5,506	5,506
Accounts payable and accrued liabilities	(2,761)	(2,761)	(3,854)	(3,854)
	970	970	1,652	1,652
	$ 230,325	$ 249,332	$ 217,208	$ 241,542

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $112,941 (2006: $91,963).

(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 EFFECTIVE INVESTMENTS IN UNITED STATES EQUITIES Schedule D

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 2,042	$ 2,042	$ 902	$ 902
Public equities (a) (b)				
Consumer discretionary	29,996	32,450	23,587	24,653
Consumer staples	25,345	26,935	19,847	19,644
Energy	25,602	28,604	19,527	21,966
Financials	59,477	63,673	47,619	49,616
Health care	33,609	35,855	28,740	29,946
Industrials	32,065	34,824	27,433	29,277
Information technology	41,279	44,460	34,341	35,973
Materials	9,317	10,245	7,477	8,305
Telecommunication services	8,854	9,675	6,514	6,707
Utilities	10,145	11,112	7,185	7,385
	275,689	297,833	222,270	233,472
Receivable from sale of investments and accrued investment income	1,761	1,761	7,754	7,754
Accounts payable and accrued liabilities	(2,850)	(2,850)	(6,191)	(6,191)
	(1,089)	(1,089)	1,563	1,563
	$ 276,642	$ 298,786	$ 224,735	$ 235,937

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $217,543 (2006: $119,016).

(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 EFFECTIVE INVESTMENTS IN NON-AMERICAN EQUITIES Schedule E

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 3,023	$ 3,023	$ 5,612	$ 5,612
Public equities (a) (b)				
Consumer discretionary	31,795	34,262	25,434	28,374
Consumer staples	17,611	18,961	14,465	14,371
Energy	17,690	18,627	15,359	17,826
Financials	71,868	78,227	59,173	69,338
Health care	17,049	17,081	16,124	16,683
Industrials	35,608	40,431	26,843	31,874
Information technology	18,692	18,659	15,085	16,145
Materials	18,335	20,591	16,183	19,342
Telecommunication services	16,056	16,759	14,265	13,108
Utilities	12,626	14,142	9,443	10,423
	257,330	277,740	212,374	237,484
Emerging markets pooled funds	4,570	6,269	3,699	4,891
	261,900	284,009	216,073	242,375
Receivable from sale of investments and accrued investment income	3,474	3,474	5,119	5,119
Accounts payable and accrued liabilities	(3,689)	(3,689)	(4,132)	(4,132)
	(215)	(215)	987	987
	$ 264,708	$ 286,817	$ 222,672	$ 248,974

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $59,282 (2006: $26,759).

(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			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
United Kingdom	$ 55,176	$ 58,397	$ 44,671	$ 46,843
Japan	55,586	55,303	51,046	55,764
France	29,285	31,406	21,555	24,298
Germany	20,228	22,289	14,016	16,265
Switzerland	13,366	15,539	14,569	16,082
Netherlands	11,202	13,458	10,488	12,277
Spain	10,542	11,518	6,187	6,621
Australia	10,065	10,872	8,091	8,924
Italy	8,135	9,150	6,698	7,635
Sweden	4,760	5,252	4,203	4,920
Other	43,555	50,825	34,549	42,746
	$ 261,900	$ 284,009	$ 216,073	$ 242,375

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS RETURNS

Schedule F

March 31, 2007

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	**2007**	**2006**	**2005**	**2004**	**2003**	**Return**
Short-term fixed income	**6.0**	**2.9**	**2.3**	**3.0**	**2.7**	**3.4**
Scotia Capital 91-day T-Bill Index	*4.2*	*2.8*	*2.2*	*3.0*	*2.7*	*3.0*
Absolute return strategies	**11.4**	**5.2**	**5.5**	**10.7**	**1.6****	**n/a**
HFRX Global Hedged Index	*5.8*	*10.1*	*8.1*	*6.7*	*4.7***	*n/a*
Long-term fixed income	**5.9**	**5.7**	**5.6**	**11.6**	**9.6**	**7.7**
Scotia Capital Universe Bond Index	*5.5*	*4.9*	*5.0*	*10.8*	*9.2*	*7.0*
Real estate	**24.5**	**20.7**	**16.9**	**7.5**	**9.8**	**15.7**
IPD Large Institutional All Property Index	*20.9*	*19.4*	*7.1*	*5.5*	*8.9*	*12.2*
Private income	**19.1**	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*
Timberland Investments	**54.0**	**(4.9)***	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 4%	*6.0*	*4.2**	*n/a*	*n/a*	*n/a*	*n/a*
Canadian equities	**12.9**	**28.8**	**15.4**	**36.3**	**(17.4)**	**13.6**
S&P/TSX Composite Index	*11.4*	*28.4*	*13.9*	*37.7*	*(17.6)*	*13.1*
United States equities	**10.5**	**8.6**	**(1.7)**	**22.2**	**(30.5)**	**0.0**
S&P 1500 Index	*9.9*	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*(0.2)*
Non-North American equities	**17.6**	**23.8**	**7.4**	**40.9**	**(29.1)**	**9.3**
MSCI EAFE Index	*18.7*	*20.0*	*6.2*	*40.5*	*(29.3)*	*8.5*
Private equities	**18.6**	**13.3**	**(0.9)**	**1.1**	**(3.3)****	**n/a**
Consumer Price Index (CPI) plus 8%	*10.0*	*10.2*	*10.1*	*8.7*	*5.7***	*n/a*
Overall	**12.8**	**15.6**	**7.5**	**24.0**	**(13.4)**	**8.5**
Policy Benchmark	***11.7***	***14.7***	***6.0***	***23.2***	***(13.7)***	***7.7***

* Actual and benchmark returns are for nine months.

** Actual and benchmark returns are for six months.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2007

AUDITOR
GENERAL
Alberta

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, 2007 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, 2007 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 18, 2007

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 14,972,327	$ 13,681,630
Accrued investment income	21,000	26,433
Receivable from sale of investments	31,575	-
Due from the General Revenue Fund	7,696	-
Administration expense receivable	-	22
	$ 15,032,598	$ 13,708,085
Liabilities		
Liabilities for investment purchases	$ 4,419	$ 135,842
Administration expense payable	234	-
Due to the General Revenue Fund	-	77,684
	4,653	213,526
Net Assets (Note 6)	15,027,945	13,494,559
	$ 15,032,598	$ 13,708,085

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2007

	2007		2006
	Budget	Actual	Actual
		($ thousands)	
Net income (Note 7)	$ 913,725	$ 1,648,006	$ 1,397,413
Transfers to the General Revenue Fund (Note 6c)	(671,725)	(1,364,620)	(1,015,296)
Amount retained for inflation-proofing (Note 6c)	242,000	283,386	382,117
Transfers from the General Revenue Fund (Notes 6a & 6b)	1,000,000	1,250,000	1,750,000
Change in net assets	$ 1,242,000	1,533,386	2,132,117
Net Assets at beginning of year		13,494,559	11,362,442
Net Assets at end of year		$ 15,027,945	$ 13,494,559

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, 2007

	2007	2006
	($ thousands)	
Operating transactions		
Net income	$ 1,648,006	$ 1,397,413
Non-cash items included in net income	(240,024)	(166,400)
	1,407,982	1,231,013
Increase in accounts receivable	(26,120)	(19,166)
(Decrease) increase in accounts payable	(131,189)	135,835
Cash provided by operating transactions	1,250,673	1,347,682
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,888,728	1,157,512
Purchase of investments	(3,146,216)	(3,097,533)
Cash applied to investing transactions	(1,257,488)	(1,940,021)
Transfers		
Transfers from the General Revenue Fund	1,250,000	1,750,000
Transfers to the General Revenue Fund	(1,364,587)	(1,015,296)
(Decrease) increase in amounts due to the General Revenue Fund	(85,413)	15,296
Cash (applied to) provided by transfers	(200,000)	750,000
(Decrease) increase in cash	(206,815)	157,661
Cash at beginning of year	229,020	71,359
Cash at end of year	$ 22,205	$ 229,020
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 22,205	$ 229,020

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, 2007 ($ 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. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used.

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 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, forward foreign exchange contracts, credit default swap contracts and options, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year end exchange rates. Exchange differences on 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 is 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 period-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) Mortgages and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(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 Pool investments is 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 is appraised annually by independent third party evaluators.

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

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency is 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, equity index futures contracts and swap option 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.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 3 PORTFOLIO INVESTMENTS

	2007			2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	(thousands)			(thousands)		
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 22,205	$ 22,205	0.1	$ 229,020	$ 229,020	1.5
Currency Alpha Pool (b)	21,210	23,119	0.2	16,751	17,209	0.1
Tactical Asset Allocation Pool (c)	52,952	53,077	0.3	28,921	27,947	0.2
Bonds, notes & short-term paper, directly held	-	-	-	22,315	22,358	0.2
	96,367	98,401	0.6	297,007	296,534	2.0
Absolute Return Strategies (d)	818,257	884,734	5.4	569,151	571,720	3.8
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	4,371,914	4,397,434	26.6	3,877,585	3,888,854	25.9
Private Mortgage Pool (f)	584,524	591,153	3.6	584,319	591,638	3.9
Loans, directly held (g)	98,148	98,148	0.6	102,219	102,219	0.7
Provincial corporation debentures, directly held	-	-	-	80,927	113,925	0.8
	5,054,586	5,086,735	30.8	4,645,050	4,696,636	31.3
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (h)	1,133,047	1,675,993	10.1	1,055,710	1,396,862	9.3
Foreign Private Real Estate Pool (i)	87,122	87,379	0.6	44,916	44,042	0.3
	1,220,169	1,763,372	10.7	1,100,626	1,440,904	9.6
Private Income (j)	200,263	217,182	1.3	81,688	81,948	0.6
Timberland (k)	57,260	79,904	0.5	59,942	56,454	0.4
Equities						
Canadian **(Schedule C)**						
Canadian Structured Equity Pool (l)	954,429	1,018,876	6.2	1,032,351	1,131,293	7.5
Canadian Pooled Equity Fund (m)	557,526	717,411	4.3	493,715	666,827	4.4
Canadian Equity Enhanced Index Pool (n)	308,326	353,031	2.1	278,441	332,581	2.2
Canadian Large Cap Equity Pool (o)	253,862	255,284	1.5	230,719	231,602	1.6
Growing Equity Income Pool (p)	123,882	148,362	0.9	106,187	150,261	1.0
Canadian Multi-Cap Pool (q)	305,358	310,315	1.9	203,525	205,931	1.4
Tactical Asset Allocation Pool Canadian futures (c)	(219,523)	(219,523)	(1.3)	(146,080)	(146,080)	(1.0)
	2,283,860	2,583,756	15.6	2,198,858	2,572,415	17.1
United States **(Schedule D)**						
US Structured Equity Pool (r)	1,412,381	1,618,510	9.8	-	-	-
US Small/Mid Cap Equity Pool (s)	276,578	309,333	1.8	266,559	307,170	2.0
Portable Alpha United States Equity Pool (t)	561,620	590,884	3.6	386,366	382,057	2.5
Growing Equity Income Pool (p)	48,902	48,858	0.3	47,759	46,552	0.3
S&P 500 Index Fund	-	-	-	1,472,667	1,629,524	10.9
Tactical Asset Allocation Pool US futures (c)	217,069	217,069	1.3	147,487	147,487	1.0
	2,516,550	2,784,654	16.8	2,320,838	2,512,790	16.7
Non-North American **(Schedule E)**						
EAFE Active Equity Pool (u)	1,746,326	1,979,824	12.0	1,615,625	1,867,616	12.4
EAFE Structured Equity Pool (v)	492,573	475,031	2.9	433,200	492,347	3.3
Emerging Markets Equity Pool (w)	127,180	166,923	1.0	116,466	159,782	1.1
	2,366,079	2,621,778	15.9	2,165,291	2,519,745	16.8
Private Equities (j)	358,936	405,244	2.4	243,179	258,322	1.7
Total Investments (x)	$14,972,327	$16,525,760	100.0	$13,681,630	$15,007,468	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, 2007, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2007	**2006**
Absolute Return Strategy Pool	86.1	88.5
Canadian Equity Enhanced Index Pool	25.2	25.8
Canadian Large Cap Equity Pool	13.0	12.6
Canadian Multi-Cap Pool	45.5	56.9
Canadian Pooled Equity Fund	54.2	54.5
Canadian Structured Equity Pool	46.8	42.3
Currency Alpha Pool	37.2	28.9
EAFE Active Equity Pool	30.2	31.7
EAFE Passive Equity Pool	76.5	76.5
EAFE Structured Equity Pool	40.6	24.0
Emerging Markets Equity Pool	24.5	26.4
Foreign Private Equity Pool (02)	87.5	43.8
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	87.1	87.1
Global Private Equity Pool (07)	85.2	-
Growing Equity Income Pool	54.1	55.8
Portable Alpha United States Equity Pool	84.2	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	88.8	62.1
Private Equity Pool (04)	89.0	77.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.5	25.7
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	38.7	43.4
Private Real Estate Pool	36.6	37.1
Standard & Poor's 500 Index Fund	-	71.8
Tactical Asset Allocation Pool	83.7	86.7
Timberland Pool	87.6	87.6
US Small/Mid Cap Equity Pool	23.9	25.2
US Structured Equity Pool	37.6	-
Universe Fixed Income Pool	41.8	40.2

(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, 2007, securities held by the Fund have an average effective market yield of 4.36% per annum (2006: 3.96% per annum).

(b) 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.

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

(c) 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, 2007, 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.

(d) 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.

(e) The Universe Fixed Income Pool (formerly 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, 2007, securities held by the Pool have an average effective market yield of 4.5% per annum (2006: 4.7% per annum) and the following term structure based on principal amount: under 1 year: 3% (2006: 2%); 1 to 5 years: 33% (2006: 34%); 5 to 10 years: 34% (2006: 33%); 10 to 20 years: 11% (2006: 12%); and over 20 years: 19% (2006: 19%).

(f) 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 (94.0%) and provincial bond residuals (6.0%). 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, 2007, securities held by the Pool have an average effective market yield of 5.09% per annum (2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 6% (2006: 2%); 1 to 5 years: 15% (2006: 19%); 5 to 10 years: 54% (2006: 50%); 10 to 20 years: 5% (2006: 10%); and over 20 years: 20% (2006: 19%).

(g) 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, 2007, investment in loans, at cost, include the Ridley Grain loan amounting to $95,750 (2006: $100,000) and the Vencap loan amounting to $2,398 (2006: $2,219).

- 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 $95,750 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2007 amounted to $90,161 (2006: $90,161). 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.

(h) 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.

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

(i) 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.

(j) The Private Income Pools invest 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%. 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, the Foreign Private Equity Pool 2005 and the Global Private Equity Pool 2007. 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.

(k) 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%.

(l) The Canadian Structured Equity Pool (formerly 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) is 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.

(m) 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.

(n) 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. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (l)).

(o) 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.

(p) 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.

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

(q) 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 is used as the underlying securities to support the index swaps of the pool (see Note 3 (l)).

(r) On November 30, 2006, all investments held in the Standard & Poor's 500 Index Fund were transferred to the newly created US Structured Equity Pool. Publicly traded U.S. equities held in the US Structured Equity Pool 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 is used as the underlying securities to support the index swaps of the pool (see Note 3(l)).

(s) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded U.S. 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.

(t) 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.

(u) 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.

(v) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (l)). During the year, the EAFE Passive Equity Pool was combined with the EAFE Structured Equity Pool.

(w) 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 Morgan Stanley Capital Index Emerging Markets Free (MSCI EMF) Index over a four-year period.

(x) 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.

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.

ALBERTA HERITAGE SAVINGS TRUST FUND

(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.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

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, 2007:

	Maturity			2007		2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)(c)	Notional Amount (a)	Fair Value (b)(c)
				(thousands)			
Equity index swap contracts	78%	22%	-	$ 3,510,585	$ (3,095)	$ 2,460,014	$ 45,423
Interest rate swap contracts	8%	53%	39%	2,752,700	(5,973)	1,053,569	(2,391)
Forward foreign exchange contracts	100%	-	-	2,262,507	(2,574)	1,554,419	(1,980)
Cross-currency interest rate swaps	21%	43%	36%	1,035,104	30,058	711,678	52,051
Credit default swap contracts	1%	4%	95%	6,679,344	(22,293)	1,298,187	2,984
Bond index swap contracts	100%	-	-	1,560,938	2,479	236,998	24,470
Equity index futures contracts	100%	-	-	1,205,889	29,305	782,574	15,652
Swap option contracts	65%	25%	10%	4,996,569	317	-	-
				$ 24,003,636	$ 28,224	$ 8,097,439	$ 136,209

(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).

(c) Included in fair value are derivative-related receivables and derivative-related payables of $87,710 and $59,486 respectively.

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 Business Plan proposed the following asset mix policy for the Fund.

Equities	49.0%
Fixed income securities	29.0%
Inflation sensitive	16.0%
Cash and Abolsulte Return Strategies	6.0%

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

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

	Cumulative since 1976	
	2007	**2006**
	($ thousands)	
Accumulated net income	$ 29,969,598	$ 28,321,592
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049,324	12,049,324
Access to the Future (a)	1,000,000	750,000
Voted payments (b)	2,000,000	1,000,000
	15,049,324	13,799,324
Transfers from Fund		
Section 8(2) transfers (c)		
Income	(27,601,228)	(25,953,222)
Amount Retained for Inflation-proofing	1,096,139	812,753
	(26,505,089)	(25,140,469)
Capital Expenditures (1976-1995) (d)	(3,485,888)	(3,485,888)
	(29,990,977)	(28,626,357)
Net Assets at cost	$ 15,027,945	$ 13,494,559
Net Assets at fair value	$ 16,581,378	$ 14,820,397

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the fund. During the year, the Fund received $250 million on account of the *Access to the Future Act*.

(b) During the year, the Fund received $1 billion from the GRF.

(c) In accordance with section 8(2) of the Act, the Fund transferred $1,365 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $1,648 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $283 million, shall be transferred to the GRF annually in a manner determined by the Minister of Finance. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation proofing by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the year.

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 7 NET INCOME

	2007	2006
	($ thousands)	
Non-North American equities	$ 542,019	$ 299,714
Canadian equities	386,133	594,845
Deposit and fixed-income securities	324,228	318,152
United States equities	185,344	57,840
Real estate	143,709	89,573
Private equities	39,411	5,380
Absolute return strategies	13,960	23,444
Private income	13,041	11,853
Timberland	2,171	(1,088)
Investment income	1,650,016	1,399,713
Direct administrative expenses (Note 8)	(2,010)	(2,300)
Net income	$ 1,648,006	$ 1,397,413

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 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, 2007 includes writedowns totalling $37,804 (2006: $43,055).

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.

	2007	2006
	($ thousands)	
Direct fund expense (Note 7)	$ 2,010	$ 2,300
External management fees	48,141	37,274
Internal management expenses	4,912	4,797
Total	$ 55,063	$ 44,371
Percent of net assets at fair value	0.334%	0.299%

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	12.4%	8.8%
Benchmark return (1)(2)	11.1%	6.8%

(1) The overall benchmark return for the year ended March 31, 2007 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 2.3%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.8%.

NOTE 10 COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform to 2007 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, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 5,168	$ 5,168	$ 24,161	$ 24,161
Fixed-income securities (a)				
Corporate, public and private	3,252,887	3,236,952	2,621,713	2,604,449
Government of Canada, direct and guaranteed	1,054,371	1,053,089	1,059,595	1,054,335
Provincial, direct and guaranteed:				
Alberta	1,540	1,606	1,748	1,850
Other provinces	616,163	665,153	681,060	720,829
Loans	98,148	98,148	102,218	102,218
Municipal	1,675	1,985	18,445	19,686
Provincial corporation debentures	-	-	80,927	113,925
	5,024,784	5,056,933	4,565,706	4,617,292
Receivable from sale of investments and accrued investment income	49,030	49,030	92,002	92,002
Accounts payable and accrued liabilities	(24,396)	(24,396)	(36,819)	(36,819)
	24,634	24,634	55,183	55,183
	$ 5,054,586	$ 5,086,735	$ 4,645,050	$ 4,696,636

(a) Fixed income securities held as at March 31, 2007 have an average effective market yield of 4.7% per annum (2006: 4.98% per annum) and the following term structure based on principal amount:

	2007	2006
	%	
under 1 year	4	3
1 to 5 years	30	30
5 to 10 years	37	35
10 to 20 years	10	13
over 20 years	19	19
	100	100

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 1,852	$ 1,852	$ 766	$ 766
Real estate (a)				
Office	486,947	803,853	498,043	690,588
Retail	350,388	528,484	335,662	462,023
Industrial	181,439	209,357	127,434	145,334
Residential	53,205	73,231	58,525	62,871
	1,071,979	1,614,925	1,019,664	1,360,816
Foreign Private Real Estate Pool	87,122	87,379	44,916	44,042
Participation units	58,187	58,187	32,397	32,397
Accrued income and accounts receivable	1,029	1,029	2,883	2,883
	$ 1,220,169	$ 1,763,372	$ 1,100,626	$ 1,440,904

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

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 662,387	$ 944,336	$ 640,189	$ 828,604
Alberta	265,486	491,386	232,439	380,913
Quebec	124,001	148,299	126,261	124,425
British Columbia	20,105	30,904	20,775	26,874
	$ 1,071,979	$ 1,614,925	$ 1,019,664	$ 1,360,816

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE INVESTMENTS IN CANADIAN EQUITIES Schedule C

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 17,320	$ 17,320	$ 12,875	$ 12,875
Public equities (a) (b)				
Consumer discretionary	154,332	159,563	136,328	138,850
Consumer staples	69,786	68,535	75,931	77,209
Energy	593,053	652,493	576,093	733,346
Financials	738,115	847,511	670,622	770,872
Health care	17,641	17,441	30,358	27,861
Industrials	108,261	132,708	128,885	157,101
Information technology	95,801	106,996	109,238	104,743
Materials	332,712	394,476	309,004	384,269
Telecommunication services	126,846	154,296	106,123	119,619
Utilities	19,886	22,310	24,828	27,097
	2,256,433	2,556,329	2,167,410	2,540,967
Receivable from sale of investments and accrued investment income	39,109	39,109	59,788	59,788
Accounts payable and accrued liabilities	(29,002)	(29,002)	(41,215)	(41,215)
	10,107	10,107	18,573	18,573
	$ 2,283,860	$ 2,583,756	$ 2,198,858	$ 2,572,415

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $1,174,290 (2006: $1,047,241).

(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 EFFECTIVE INVESTMENTS IN UNITED STATES EQUITIES Schedule D

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 18,938	$ 18,938	$ 8,924	$ 8,924
Public equities (a) (b)				
Consumer discretionary	272,485	301,684	242,824	261,940
Consumer staples	230,288	251,664	204,301	210,917
Energy	233,596	267,079	203,682	234,654
Financials	542,745	595,513	492,193	528,942
Health Care	304,544	333,232	296,126	318,816
Industrials	292,218	324,451	283,024	310,205
Information technology	374,415	413,471	353,870	382,823
Materials	84,649	95,015	77,008	87,447
Telecommunication services	80,315	90,218	67,341	72,141
Utilities	92,468	103,500	74,274	78,710
	2,507,723	2,775,827	2,294,643	2,486,595
Receivable from sale of investments and accrued investment income	16,212	16,212	80,368	80,368
Accounts payable and accrued liabilities	(26,323)	(26,323)	(63,097)	(63,097)
	(10,111)	(10,111)	17,271	17,271
	$ 2,516,550	$ 2,784,654	$ 2,320,838	$ 2,512,790

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $2,035,956 (2006: $1,326,594).

(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 EFFECTIVE INVESTMENTS IN NON-AMERICAN EQUITIES Schedule E

March 31, 2007

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 28,538	$ 28,538	$ 57,576	$ 57,576
Public equities (a) (b)				
Consumer discretionary	282,965	311,840	245,825	286,011
Consumer staples	155,576	170,811	138,700	143,264
Energy	157,524	169,686	148,267	179,909
Financials	639,577	711,663	572,706	699,874
Health care	150,707	154,061	154,693	166,597
Industrials	316,706	368,473	259,529	321,123
Information technology	166,874	170,244	146,110	162,371
Materials	163,656	187,499	157,432	195,718
Telecommunication services	143,790	153,259	137,771	131,617
Utilities	112,028	128,688	91,188	105,082
	2,289,403	2,526,224	2,052,221	2,391,566
Emerging market pooled funds	50,759	69,637	46,867	61,976
	2,340,162	2,595,861	2,099,088	2,453,542
Receivable from sale of investments and accrued investment income	31,604	31,604	48,418	48,418
Accounts payable and accrued liabilities	(34,225)	(34,225)	(39,791)	(39,791)
	(2,621)	(2,621)	8,627	8,627
	$ 2,366,079	$ 2,621,778	$ 2,165,291	$ 2,519,745

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $490,117 (2006: $242,413).

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

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
United Kingdom	$ 491,195	$ 530,612	$ 431,466	$ 471,910
Japan	491,885	498,640	489,461	556,801
France	259,395	284,571	206,848	242,852
Germany	178,941	201,595	134,382	162,451
Switzerland	117,827	139,801	140,028	160,948
Netherlands	99,313	122,399	100,723	122,836
Spain	93,246	104,131	59,245	66,008
Australia	88,480	97,113	77,449	88,969
Italy	71,763	82,369	64,186	76,189
Sweden	41,878	47,026	40,398	49,272
Other	406,239	487,604	354,902	455,306
	$ 2,340,162	$ 2,595,861	$ 2,099,088	$ 2,453,542

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

For the Year Ended March 31, 2007

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:

	One Year Return					5 Year Compound Annualized
Time-weighted rates of return	**2007**	**2006**	**2005**	**2004**	**2003**	**Return**
Short-term fixed income	**3.9**	**2.9**	**2.3**	**2.9**	**3.0**	**3.0**
Scotia Capital 91-day T-Bill Index	*4.2*	*2.8*	*2.2*	*3.0*	*2.7*	*3.0*
Absolute return strategies	**11.4**	**5.2**	**5.5**	**10.7**	**1.6****	**n/a**
HFRX Global Hedged Index	*5.8*	*10.1*	*8.1*	*6.7*	*4.7***	*n/a*
Long-term fixed income	**6.3**	**6.5**	**5.5**	**11.3**	**9.5**	**7.8**
Scotia Capital Universe Bond Index	*5.5*	*4.9*	*5.0*	*10.8*	*9.2*	*7.0*
Real estate	**24.3**	**20.7**	**17.0**	**7.5**	**9.8**	**15.7**
IPD Large Institutional All Property Index	*20.8*	*19.4*	*7.1*	*5.5*	*9.6*	*12.3*
Private income	**20.3**	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*
Timberland Investments*	**54.0**	**(4.9)***	**n/a**	**n/a**	**n/a**	**n/a**
*CPI plus 4%**	*6.0*	*4.2**	*n/a*	*n/a*	*n/a*	*n/a*
Canadian equities	**11.8**	**28.8**	**15.4**	**36.6**	**(16.6)**	**13.6**
S&P/TSX Composite Index	*11.4*	*28.4*	*13.9*	*37.7*	*(17.6)*	*13.1*
United States equities	**10.5**	**8.2**	**(1.6)**	**22.0**	**(30.6)**	**(0.1)**
S&P 1500 Index	*9.9*	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*(0.2)*
Non-North American equities	**17.6**	**24.2**	**7.6**	**40.9**	**(29.1)**	**9.4**
MSCI EAFE Index	*18.7*	*20.0*	*6.2*	*40.5*	*(29.3)*	*8.5*
Private equities	**19.6**	**18.4**	**5.2**	**4.6**	**(3.3)****	**n/a**
Consumer Price Index (CPI) plus 8%	*10.0*	*10.2*	*10.1*	*8.7*	*5.7***	*n/a*
Overall	**12.4**	**15.2**	**7.7**	**22.5**	**(11.3)**	**8.8**
Policy Benchmark	*11.1*	*13.9*	*6.4*	*21.6*	*(11.7)*	*7.7*

* Actual and benchmark returns are for nine months.

** Actual and benchmark returns are for six months.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

March 31, 2007

AUDITOR
GENERAL
Alberta

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, 2007 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, 2007 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 18, 2007

ALBERTA HERITAGE SCHOLARSHIP FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 575,292	$ 520,616
Transfers receivable from Alberta Government departments	332	350
Receivable from sale of investments	610	1,950
	$ 576,234	$ 522,916
Liabilities		
Liabilities for investment purchases	$ -	$ 2,000
Administration expense payable	19	9
	19	2,009
Net Assets (Note 6)	576,215	520,907
	$ 576,234	$ 522,916

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2007

	2007		2006
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 7)	$ 26,769	$ 59,790	$ 43,783
Transfers from the General Revenue Fund (Note 6b)	20,000	20,000	250,000
Transfers from Alberta Government departments	200	332	350
Other contributions	40	165	38
Scholarships	(25,512)	(24,979)	(22,906)
Change in Net Assets	$ 21,497	55,308	271,265
Net Assets at beginning of year		520,907	249,642
Net Assets at end of year		$ 576,215	$ 520,907

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, 2007

	2007	2006
	($ thousands)	
Operating transactions		
Net investment income	$ 59,790	$ 43,783
Non-cash items included in net investment income	(4,645)	(2,222)
	55,145	41,561
Decrease (increase) in receivables	1,358	(1,932)
(Decrease) increase in payables	(1,990)	2,009
Cash provided by operating transactions	54,513	41,638
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	43,450	19,272
Purchase of investments	(95,619)	(280,984)
Cash applied to investing transactions	(52,169)	(261,712)
Transfers		
Transfers from the General Revenue Fund	20,000	250,000
Transfers from Alberta Government departments	332	350
Other contributions	165	38
Transfers to Advanced Education for scholarships	(24,979)	(22,906)
Cash (applied to) provided by transfers	(4,482)	227,482
(Decrease) increase in cash	(2,138)	7,408
Cash at beginning of year	12,490	5,082
Cash at end of year	$ 10,352	$ 12,490
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 10,352	$ 12,490

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007 ($ 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 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, as reported in Note 7, is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used.

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

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 2 (continued)

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, credit default swap contracts and options, 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 tranasctions 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 is 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 is estimated by external managers.

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

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

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency is 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, equity index futures contracts and swap option contracts. As disclosed in Note 5, 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 based on quoted market prices.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap.

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 3 PORTFILIO INVESTMENTS

	2007			2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	($ thousands)			($ thousands)		
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 10,352	$ 10,352	1.7	$ 12,490	$ 12,490	2.2
Currency Alpha Pool (b)	772	870	0.1	356	365	0.1
Tactical Asset Allocation Pool (c)	2,135	2,013	0.3	615	594	0.1
	13,259	13,235	2.1	13,461	13,449	2.4
Absolute Return Strategies (d)	14,247	15,364	2.5	7,746	7,828	1.4
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	150,388	149,743	24.0	133,831	132,602	23.7
Private Mortgage Pool (f)	15,108	15,574	2.5	12,069	12,636	2.3
	165,496	165,317	26.5	145,900	145,238	26.0
Inflation Sensitive						
Real Estate (Schedule B)						
Private Real Estate Pool (g)	46,170	63,092	10.1	43,210	52,284	9.3
Foreign Private Real Estate Pool (h)	1,890	1,896	0.3	975	956	0.2
	48,060	64,988	10.4	44,185	53,240	9.5
Private Income (i)	2,963	3,254	0.5	1,579	1,584	0.3
Timberland (j)	593	828	0.1	621	585	0.1
Equities						
Canadian Equities (Schedule C)						
Canadian Structured Equity Pool (k)	59,189	59,975	9.6	62,483	64,301	11.5
Canadian Pooled Equity Fund (l)	34,465	41,045	6.6	30,893	37,903	6.8
Canadian Equity Enhanced Index Pool (m)	18,523	20,488	3.3	16,213	18,583	3.3
Canadian Large Cap Pool (n)	14,389	14,544	2.4	14,583	14,750	2.6
Growing Equity Income Pool (o)	6,635	7,660	1.2	5,249	7,077	1.3
Canadian Multi-Cap Pool (p)	15,960	16,377	2.6	9,407	9,654	1.7
Tactical Asset Allocation Pool Canadian futures contracts (c)	(8,326)	(8,326)	(1.3)	(3,105)	(3,105)	(1.0)
	140,835	151,763	24.4	135,723	149,163	26.2
United States Equities (Schedule D)						
US Structured Equity Pool (q)	73,665	82,140	13.2	-	-	-
US Small/Mid Cap Equity Pool (r)	10,439	12,011	2.0	9,390	11,151	2.0
Growing Equity Income Pool (o)	2,621	2,525	0.4	2,362	2,192	0.4
S&P 500 Index Fund	-	-	-	70,292	75,592	13.5
Tactical Asset Allocation Pool US futures contracts (c)	8,233	8,233	1.3	3,134	3,134	1.0
	94,958	104,909	16.9	85,178	92,069	16.9
Non-North American Equities (Schedule E)						
EAFE Active Equity Pool (s)	66,673	73,383	11.8	63,710	70,881	12.7
EAFE Structured Equity Pool (t)	18,370	18,202	2.9	15,828	17,124	3.1
Emerging Markets Equity Pool (u)	5,447	6,793	1.1	4,426	5,701	1.0
	90,490	98,378	15.8	83,964	93,706	16.8
Private Equities (i)	4,391	4,699	0.8	2,259	2,444	0.4
Total Investments (v)	$ 575,292	$ 622,735	100.0	$ 520,616	$ 559,306	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, 2007, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2007	**2006**
Absolute Return Strategy Pool	1.5	1.2
Canadian Equity Enhanced Index Pool	1.5	1.4
Canadian Large Cap Equity Pool	0.7	0.8
Canadian Multi-Cap Pool	2.4	2.7
Canadian Pooled Equity Fund	3.1	3.1
Canadian Structured Equity Pool	2.8	2.4
Currency Alpha Pool	1.4	0.6
EAFE Active Equity Pool	1.1	1.2
EAFE Passive Equity Pool	1.7	1.7
EAFE Structured Equity Pool	1.6	1.1
Emerging Markets Pool	1.0	0.9
Foreign Private Equity Pool (02)	2.0	1.0
Foreign Private Real Estate Pool	1.9	1.9
Global Private Equity Pool (07)	0.9	-
Growing Equity Income Pool	2.8	2.6
Private Equity Pool	2.2	2.2
Private Equity Pool (02)	1.3	0.9
Private Income Pool	1.7	0.5
Private Income Pool 2	1.0	1.0
Private Mortgage Pool	1.0	0.9
Private Real Estate Pool	1.4	1.4
Standard & Poor's 500 Index Fund	-	3.3
Tactical Asset Allocation Pool	3.2	1.8
Timberland Pool	0.9	0.9
US Small/Mid Cap Equity Pool	0.9	0.9
US Structured Equity Pool	1.9	-
Universe Fixed Income Pool	1.4	1.4

(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, 2007, securities held by the Fund have an average effective market yield of 4.36% per annum (2006: 3.96% per annum).

(b) 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.

(c) 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, 2007, the Pool is comprised of a long position through United States equity index futures contracts and a short

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 3 (continued)

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.

(d) 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.

(e) The Universe Fixed Income Pool (formerly 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, 2007, securities held by the Pool have an average effective market yield of 4.5% per annum (2006: 4.7% per annum) and the following term structure based on principal amount: under 1 year: 3% (2006: 2%); 1 to 5 years: 33% (2006: 34%); 5 to 10 years: 34% (2006: 33%); 10 to 20 years: 11% (2006: 12%); and over 20 years: 19% (2006: 19%).

(f) 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 (94.0%) and provincial bond residuals (6.0%). 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, 2007, securities held by the Pool have an average effective market yield of 5.09% per annum (2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 6% (2006: 2%); 1 to 5 years: 15% (2006: 19%); 5 to 10 years: 54% (2006: 50%); 10 to 20 years: 5% (2006: 10%); and over 20 years: 20% (2006: 19%).

(g) 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.

(h) 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.

(i) 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%. 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 02 and the Global Private Equity Pool 07. 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.

(j) 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%.

(k) The Canadian Structured Equity Pool (formerly 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

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 3 (continued)

the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is 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.

(l) 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.

(m) 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. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (k)).

(n) 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.

(o) 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.

(p) 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 is used as the underlying securities to support the index swaps of the pool (see Note 3 (k)).

(q) On November, 30, 2006, all of the investments held in the S&P 500 Index Pool were transferred to the newly created US Structured Equity Pool. Publicly traded U.S. equities held in the US Structured Equity Pool 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 is used as the underlying securities to support the index swaps of the Pool (see Note 3(k)).

(r) 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.

(s) 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 SCHOLARSHIP FUND

Note 3 (continued)

(t) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3(k)). During the year, the EAFE Passive Equity Pool was combined with the EAFE Structured Equity Pool.

(u) 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.

(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 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 2006-2007 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 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in 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 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

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 4 (continued)

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.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

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, 2007.

	Maturity			2007		2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)(c)	Notional Amount (a)	Fair Value (b)(c)
				($ thousands)			
Equity index swap contracts	78%	22%	-	$ 151,405	$ 55	$ 108,663	$ 2,248
Interest rate swap contracts	8%	53%	39%	104,701	(297)	46,364	(131)
Forward foreign exchange contracts	100%	-	-	59,847	(83)	30,644	(21)
Cross-currency interest rate swaps	21%	43%	36%	48,054	1,486	32,377	2,455
Credit default swap contracts	1%	4%	95%	230,605	(748)	46,397	111
Bond index swap contracts	100%	-	-	53,613	143	9,738	1,256
Equity index futures contracts	100%	-	-	51,317	1,178	24,020	443
Swap option contracts	65%	25%	10%	170,145	11	-	-
				$ 869,687	$ 1,745	$ 298,203	$ 6,361

(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).

(c) Included in the Fair Value of derivative contracts are derivative-related receivables and derivative-related payables of $3,858 and $2,113 respectively.

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	
	2007	2006
	($ thousands)	
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 100,000	$ 100,000
Transfers from the General Revenue Fund (b)	270,000	250,000
Other contributions	12,124	11,627
Accumulated investment income	548,507	488,717
Accumulated scholarship payments (a)	(354,416)	(329,437)
Net Assets, at cost	$ 576,215	$ 520,907
Net Assets, at fair value	$ 623,658	$ 559,597

(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) In accordance with Section 2.1 of the Act, during the year, the Fund received $20 million on account of the *Access to the Future Act*.

NOTE 7 NET INVESTMENT INCOME

	2007	2006
	$ (thousands)	
Canadian equities	$ 19,592	$ 22,770
Non-North American equities	18,049	9,001
Deposits and fixed-income securities	8,913	6,946
United States equities	5,840	1,811
Real estate	5,093	2,578
Private equities	1,913	228
Private income	272	231
Absolute return strategies	199	327
Timberland	22	(11)
Investment income	59,893	43,881
Direct administration expense (Note 8)	(103)	(98)
Net investment income	$ 59,790	$ 43,783

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 earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

ALBERTA HERITAGE SCHOLARSHIP FUND

The investment income for the year ended March 31, 2007 includes writedowns of $1,614 (2006: $1,260).

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.

	2007	2006
	($ thousands)	
Direct fund expenses (Note 7)	$ 103	$ 98
External management fees	947	654
Internal management expenses	167	141
	$ 1,217	$ 893
Expenses as a percentage of net assets at fair value	0.195%	0.160%

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	12.3%	8.7%
Benchmark return (1)	11.5%	7.9%

(1) The overall benchmark return for year ended March 31, 2007 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform to 2007 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, 2007

	Fund's Share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 176	$ 176	$ 823	$ 823
Fixed-income securities (a)				
Corporate, public and private	107,235	105,964	82,886	81,699
Government of Canada, direct and guaranteed	36,271	35,860	36,580	35,951
Provincial, direct and guaranteed:				
Alberta	53	55	60	63
Other provinces	20,885	22,376	23,068	24,185
Municipal	58	68	637	671
	164,502	164,323	143,231	142,569
Receivable from sale of investments and accrued investment income	1,649	1,649	3,026	3,026
Accounts payable and accrued liabilities	(831)	(831)	(1,180)	(1,180)
	818	818	1,846	1,846
	$ 165,496	$ 165,317	$ 145,900	$ 145,238

(a) Fixed income securities held as at March 31, 2007 have an average effective market yield of 4.56% per annum (2006: 4.75% per annum) and the following term structure based on principal amount:

	2007	2006
	%	%
under 1 year	4	2
1 to 5 years	31	32
5 to 10 years	36	35
10 to 20 years	10	12
over 20 years	19	19
	100	100

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

March 31, 2007

	Fund's Share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 70	$ 70	$ 29	$ 29
Real estate (a)				
Office	19,922	30,265	20,445	25,848
Retail	14,340	19,895	13,780	17,293
Industrial	7,425	7,881	5,232	5,440
Residential	2,178	2,757	2,403	2,353
	43,865	60,798	41,860	50,934
Foreign Private Equity Pool	1,896	1,891	975	956
Participation units	2,190	2,190	1,213	1,213
Accrued income and accounts receivable	39	39	108	108
	$ 48,060	$ 64,988	$ 44,185	$ 53,240

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

	Fund's Share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 27,102	$ 35,554	$ 26,281	$ 31,013
Alberta	10,865	18,498	9,542	14,258
Quebec	5,075	5,583	5,184	4,657
British Columbia	823	1,163	853	1,006
	$ 43,865	$ 60,798	$ 41,860	$ 50,934

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF EFFECTIVE INVESTMENTS IN CANADIAN EQUITIES — Schedule C

March 31, 2007

	Fund's Share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 968	$ 968	$ 754	$ 754
Public equities (a) (b)				
Consumer discretionary	9,422	9,264	8,555	7,958
Consumer staples	4,258	3,997	4,664	4,439
Energy	36,791	38,415	35,774	42,291
Financials	45,260	49,855	41,134	45,015
Health Care	1,136	1,031	1,929	1,616
Industrials	6,711	7,754	7,958	9,047
Information technology	5,899	6,305	6,771	6,171
Materials	20,667	23,237	19,082	22,295
Telecommunication services	7,871	9,055	6,535	7,029
Utilities	1,278	1,308	1,552	1,533
	139,293	150,221	133,954	147,394
Receivable from sale of investments and accrued investment income	2,202	2,202	3,285	3,285
Accounts payable and accrued liabilities	(1,628)	(1,628)	(2,270)	(2,270)
	574	574	1,015	1,015
	$ 140,835	$ 151,763	$ 135,723	$ 149,163

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $63,163 (2006: $52,935).

(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 EFFECTIVE INVESTMENTS IN UNITED STATES EQUITIES Schedule D

March 31, 2007

	Fund's Share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 217	$ 217	$ 324	$ 324
Public equities (a) (b)				
Consumer discretionary	10,269	11,380	8,906	9,604
Consumer staples	8,793	9,516	7,669	7,769
Energy	8,753	10,080	7,324	8,590
Financials	20,770	22,681	18,290	19,557
Health Care	11,478	12,508	10,833	11,612
Industrials	11,139	12,327	10,383	11,379
Information technology	14,112	15,549	12,932	13,990
Materials	3,177	3,585	2,789	3,190
Telecommunication services	2,994	3,373	2,471	2,633
Utilities	3,470	3,907	2,726	2,890
	94,955	104,906	84,323	91,214
Receivable from sale of investments and accrued investment income	494	494	3,431	3,431
Accounts payable and accrued liabilities	(708)	(708)	(2,900)	(2,900)
	(214)	(214)	531	531
	$ 94,958	$ 104,909	$ 85,178	$ 92,069

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $70,919 (2006: $40,398).

(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 EFFECTIVE INVESTMENTS IN NON-AMERICAN EQUITIES Schedule E

March 31, 2007

	Fund's Share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 1,062	$ 1,062	$ 2,159	$ 2,159
Public equities (a) (b)				
Consumer discretionary	10,797	11,671	9,507	10,602
Consumer staples	5,912	6,385	5,364	5,349
Energy	6,013	6,360	5,720	6,675
Financials	24,411	26,673	22,282	26,002
Health Care	5,726	5,750	5,955	6,193
Industrials	12,075	13,755	10,101	11,949
Information technology	6,376	6,359	5,683	6,054
Materials	6,260	7,049	6,153	7,289
Telecommunication services	5,507	5,744	5,317	4,907
Utilities	4,268	4,829	3,520	3,899
	87,345	94,575	79,602	88,919
Emerging markets pooled funds	2,176	2,834	1,786	2,211
	89,521	97,409	81,388	91,130
Receivable from sale of investments and accrued investment income	1,181	1,181	2,058	2,058
Accounts payable and accrued liabilities	(1,274)	(1,274)	(1,641)	(1,641)
	(93)	(93)	417	417
	$ 90,490	$ 98,378	$ 83,964	$ 93,706

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $18,761 (2006: $11,153).

(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			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
United Kingdom	$ 18,710	$ 19,896	$ 16,597	$ 17,475
Japan	18,669	18,613	18,995	20,716
France	9,859	10,608	8,033	9,065
Germany	6,797	7,519	5,225	6,050
Switzerland	4,468	5,222	5,433	5,995
Netherlands	3,776	4,558	3,921	4,600
Spain	3,542	3,884	2,296	2,443
Australia	3,350	3,635	3,017	3,239
Italy	2,722	3,076	2,478	2,830
Sweden	1,586	1,759	1,584	1,828
Other	16,042	18,639	13,809	16,889
	$ 89,521	$ 97,409	$ 81,388	$ 91,130

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

For the Year Ended March 31, 2007

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	**2007**	**2006**	**2005**	**2004**	**2003**	**Return**
Short-term fixed Income	**4.7**	**2.9**	**2.7**	**3.0**	**2.9**	**3.1**
Scotia Capital 91-day T-Bill Index	*4.2*	*2.8*	*2.2*	*3.0*	*2.7*	*3.0*
Absolute return strategies	**11.4**	**5.2**	**5.5**	**10.7**	**1.6 ******	**n/a**
HFRX Global Hedged Index	*5.8*	*10.1*	*8.1*	*6.7*	*4.7 *****	*n/a*
Long-term fixed income	**5.9**	**5.7**	**5.6**	**11.6**	**9.7**	**7.7**
Scotia Capital Universe Bond Index	*5.5*	*4.9*	*5.0*	*10.8*	*9.2*	*7.0*
Real estate	**24.6**	**20.9**	**16.7**	**7.5**	**9.8**	**15.7**
IPD Large Institutional All Property Index	*20.9*	*19.4*	*7.1*	*5.5*	*8.9*	*12.2*
Private income	**24.7**	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*
Timberland Investments	**54.0**	**(4.9)***	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 4%	*6.0*	*4.2 **	*n/a*	*n/a*	*n/a*	*n/a*
Canadian equities	**12.4**	**28.8**	**15.4**	**36.2**	**(17.4)**	**13.4**
S&P/TSX Composite Index	*11.4*	*28.4*	*13.9*	*37.7*	*(17.6)*	*13.1*
United States equities	**10.0**	**8.7**	**(2.0)**	**22.2**	**(30.6)**	**(0.1)**
S&P 500 Index	*9.9*	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*(0.2)*
Non-North American equities	**17.5**	**24.2**	**7.5**	**40.9**	**(29.1)**	**9.4**
MSCI EAFE Index	*18.7*	*20.0*	*6.2*	*40.5*	*(29.3)*	*8.5*
Private equities	**26.5**	**15.3**	**(1.1)**	**1.3**	**(3.5) ******	**n/a**
Consumer Price Index (CPI) plus 8%	*10.0*	*10.2*	*10.1*	*8.7*	*5.7 *****	*n/a*
Overall	**12.3**	**16.5**	**8.1**	**24.0**	**(13.3)**	**8.7**
Policy Benchmark	***11.5***	***15.4***	***6.7***	***23.3***	***(13.7)***	***7.9***

* Actual and benchmark returns are for nine months.

** Actual and benchmark returns are for six months.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2007

AUDITOR GENERAL
Alberta

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, 2007 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, 2007 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]

Edmonton, Alberta — Fred J. Dunn, FCA

May 18, 2007 — Auditor General

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 835,531	$ 674,048
Receivable from sale of investments	600	3,250
	$ 836,131	$ 677,298
Liabilities		
Liabilities for investment purchases	$ 279	$ 1
Administration expense payable	57	-
	336	1
Net Assets (Note 6)	835,795	677,297
	$ 836,131	$ 677,298

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2007

	2007		2006
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 7)	$ 30,747	$ 80,198	$ 57,853
Transfer from the General Revenue Fund (Note 6a)	-	100,000	100,000
Transfers to the Alberta Heritage Foundation for Science and Engineering Research (Note 6b)	(27,600)	(21,700)	(17,975)
Change in net assets	$ 3,147	158,498	139,878
Net assets at beginning of year		677,297	537,419
Net assets at end of year		$ 835,795	$ 677,297

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, 2007

	2007	2006
	($ thousands)	
Operating transactions		
Net investment income	$ 80,198	$ 57,853
Non-cash items included in net investment income	(5,649)	(3,874)
	74,549	53,979
Decrease (increase) in receivables	2,650	(3,235)
Increase (decrease) in payables	335	(939)
Cash provided by operating transactions	77,534	49,805
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	83,309	60,255
Purchase of investments	(240,183)	(196,068)
Cash applied to investing transactions	(156,874)	(135,813)
Transfers		
Transfers from the General Revenue Fund	100,000	100,000
Transfers to the Foundation	(21,700)	(17,975)
Cash provided by transfers	78,300	82,025
Decrease in cash	(1,040)	(3,983)
Cash at beginning of year	6,278	10,261
Cash at end of year	$ 5,238	$ 6,278
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 5,238	$ 6,278

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, 2007 ($ 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, as reported in Note 7, is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used.

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 2 (continued)

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 and equity index futures contracts, forward foreign exchange contracts, credit default swap contracts and options, 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 term 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 is 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 period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

ALBERTA HERITAGE SCIENCE AND ENGINEERING 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 Government of Canada bond rates adjusted for a risk premium estimated by management.

(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 is 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 is appraised annually by independent third party evaluators.

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

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency is 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, equity index futures contracts and swap option contracts. As disclosed in Note 5, 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.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

	2007			2006		
	Cost	Fair Value	%	Cost	Fair Value	%
			($ thousands)			
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 5,238	$ 5,238	0.6	$ 6,278	$ 6,278	0.9
Currency Alpha Pool (b)	1,000	1,103	0.1	674	692	0.1
Tactical Asset Allocation Pool (c)	2,557	2,548	0.3	1,285	1,242	0.2
	8,795	8,889	1.0	8,237	8,212	1.2
Absolute Return Strategies (d)	42,814	45,879	5.1	24,073	24,174	3.4
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	218,877	221,147	24.8	175,613	177,699	24.9
Private Mortgage Pool (f)	26,331	26,948	3.0	26,096	26,771	3.8
	245,208	248,095	27.8	201,709	204,470	28.7
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (g)	66,127	88,937	10.0	50,947	63,247	8.8
Foreign Private Real Estate Pool (h)	3,741	3,752	0.4	1,929	1,891	0.3
	69,868	92,689	10.4	52,876	65,138	9.1
Private Income Pools (i)	8,486	9,190	1.0	3,341	3,351	0.5
Timberland (j)	2,551	3,560	0.4	2,670	2,515	0.3
Equities						
Canadian **(Schedule C)**						
Canadian Structured Equity Pool (k)	50,494	48,470	5.4	51,829	49,700	7.0
Canadian Pooled Equity Fund (l)	32,471	33,978	3.8	28,529	30,255	4.3
Canadian Equity Enhanced Index Pool (m)	14,547	16,274	1.8	11,618	13,687	1.9
Canadian Large Cap Pool (n)	12,994	12,007	1.3	11,920	10,900	1.5
Growing Equity Income Pool (o)	6,056	7,043	0.8	4,538	6,266	0.9
Canadian Multi-Cap Pool (p)	14,636	14,872	1.7	6,922	6,985	1.0
Tactical Asset Allocation Pool Canadian futures contracts (c)	(10,538)	(10,538)	(1.1)	(6,492)	(6,492)	(1.0)
	120,660	122,106	13.7	108,864	111,301	15.6
United States **(Schedule D)**						
US Structured Equity Pool (q)	96,977	106,098	11.9	-	-	-
US Small/Mid Cap Equity Pool (r)	18,433	20,334	2.3	16,024	18,202	2.5
Portable Alpha United States Equity Pool (s)	36,023	38,135	4.3	18,700	18,608	2.6
Growing Equity Income Pool (o)	2,391	2,319	0.3	2,041	1,941	0.3
S&P 500 Index Fund	-	-	-	89,950	95,650	13.4
Tactical Asset Allocation Pool US futures contracts (c)	10,420	10,420	1.1	6,555	6,555	1.0
	164,244	177,306	19.9	133,270	140,956	19.8
Non-North American **(Schedule E)**						
EAFE Active Equity Pool (t)	119,186	128,611	14.4	100,278	109,347	15.4
EAFE Structured Equity Pool (u)	34,442	33,568	3.8	26,946	29,050	4.1
Emerging Market Equity Pool (v)	7,539	9,606	1.1	5,342	7,338	1.0
	161,167	171,785	19.3	132,566	145,735	20.5
Private Equity Pools (i)	11,738	12,427	1.4	6,442	6,597	0.9
Total Investments (w)	$ 835,531	$ 891,926	100.0	$ 674,048	$ 712,449	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, 2007, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2007	**2006**
Absolute Return Strategy Pool	4.5	3.7
Canadian Equity Enhanced Index Pool	1.2	1.1
Canadian Large Cap Equity Pool	0.6	0.6
Canadian Multi-Cap Pool	2.2	1.9
Canadian Pooled Equity Fund	2.6	2.5
Canadian Structured Equity Pool	2.2	1.9
Currency Alpha Pool	1.8	1.2
EAFE Active Equity Pool	2.0	1.9
EAFE Passive Equity Pool	4.3	4.3
EAFE Structured Equity Pool	2.9	1.5
Emerging Markets Equity Pool	1.4	1.2
Foreign Private Equity Pool (02)	3.5	1.7
Foreign Private Equity Pool (05)	4.4	4.4
Foreign Private Real Estate Pool	3.7	3.7
Global Private Equity Pool (07)	5.1	-
Growing Equity Income Pool	2.6	2.3
Portable Alpha United States Equity Pool	5.4	4.3
Private Equity Pool (02)	2.5	1.7
Private Equity Pool (04)	4.6	4.0
Private Income Pool	3.6	1.0
Private Income Pool 2	3.8	3.8
Private Mortgage Pool	1.8	2.0
Private Real Estate Pool	1.9	1.7
Standard & Poor's 500 Index Fund	-	4.2
Tactical Asset Allocation Pool	4.0	3.9
Timberland Pool	3.9	3.9
US Small/Mid Cap Equity Pool	1.6	1.5
US Structured Equity Pool	2.5	-
Universe Fixed Income Pool	2.1	1.8

(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, 2007, securities held by the Fund have an average effective market yield of 4.36% per annum (2006: 3.96% per annum).

(b) 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.

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Note 3 (continued)

(c) 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, 2007, 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.

(d) 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.

(e) The Universe Fixed Income Pool (formerly 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, 2007, securities held by the Pool have an average effective market yield of 4.5% per annum (2006: 4.7% per annum) and the following term structure based on principal amount: under 1 year: 3% (2006: 2%); 1 to 5 years: 33% (2006: 34%); 5 to 10 years: 34% (2006: 33%); 10 to 20 years: 11% (2006: 12%); and over 20 years: 19% (2006: 19%).

(f) 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 (94.0%) and provincial bond residuals (6.0%). 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, 2007, securities held by the Pool have an average effective market yield of 5.09% per annum (2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 6% (2006: 2%); 1 to 5 years: 15% (2006: 19%); 5 to 10 years: 54% (2006: 50%); 10 to 20 years: 5% (2006: 10%); and over 20 years: 20% (2006: 19%).

(g) 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.

(h) 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.

(i) 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%. 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, the Foreign Private Equity Pool 2005 and the Global Private Equity Pool 2007. 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.

(j) 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%.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 3 (continued)

(k) The Canadian Structured Equity Pool (formerly 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.

(l) 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.

(m) 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. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(k)).

(n) 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.

(o) 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.

(p) 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 is used as the underlying securities to support the index swaps of the pool (see Note 3(k)).

(q) On November 30, 2006, all of the investments held in the S&P 500 Index Pool were transferred to the newly created US Structured Equity Pool. 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 is used as the underlying securities to support the index swaps of the pool (see Note 3(k)).

(r) 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.

(s) 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.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 3 (continued)

(t) 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.

(u) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3(k)). During the year, the EAFE Passive Equity Pool was combined with the EAFE Structured Equity Pool.

(v) 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 Morgan MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(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 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 2006-2007 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 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in 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 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.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Note 5 (continued)

(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.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

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, 2007:

	Maturity			2007		2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)(c)	Notional Amount (a)	Fair Value (b)(c)
					($ thousands)		
Equity index swap contracts	78%	22%	-	$ 210,128	$ (366)	$ 123,929	$ 2,269
Interest rate swap contracts	8%	53%	39%	143,312	(345)	51,255	(108)
Forward foreign exchange contracts	100%	-	-	112,144	(159)	65,058	(70)
Cross-currency interest rate swaps	21%	43%	36%	61,214	1,729	36,133	2,701
Credit default swap contracts	1%	4%	95%	337,590	(1,113)	59,923	142
Bond index swap contracts	100%	-	-	78,686	148	11,639	1,302
Equity index futures contracts	100%	-	-	58,803	1,445	35,294	755
Swap option contracts	65%	25%	10%	251,277	16	-	-
				$ 1,253,154	$ 1,355	$ 383,231	$ 6,991

(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).

(c) Included in the Fair Value are derivative-related receivables and derivative-related payables of $4,617 and $3,262 respectively.

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	
	2007	2006
	($ thousands)	
Transfers from the General Revenue Fund (a)	$ 721,430	$ 621,430
Accumulated investment income	186,351	106,153
Accumulated transfers to the Foundation (b)	(71,986)	(50,286)
Net Assets, at cost	$ 835,795	$ 677,297
Net Assets, at fair value	$ 892,190	$ 715,698

(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. Additionally, pursuant to Section 8 of the *Access to the Future Act*, $100 million was transferred from the GRF during the 2005-2006 fiscal year and an additional $100 million was transferred from the GRF during the current year. 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.

	2007
	($ thousands)
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
Transfers to Foundation during the year	(21,700)
Accumulated unused spending limit at March 31, 2007	17,543
4.5% of average market value on March 31, 2005-07	32,346
Spending limit for the year ended March 31, 2008	$ 49,889

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 7 NET INVESTMENT INCOME

	2007	2006
	($ thousands)	
Non-North American equities	$ 30,625	$ 15,930
Canadian equities	15,747	20,688
Deposit and fixed-income securities	13,246	12,657
United States equities	11,605	3,392
Real estate	6,890	3,618
Private equities	1,003	279
Absolute return strategies	647	990
Private income	527	484
Timberland	97	(48)
Investment income	80,387	57,990
Direct administration expense (Note 8)	(189)	(137)
Net investment income	$ 80,198	$ 57,853

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 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, 2007 includes writedowns of $1,661 (2006: $1,851).

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.

	2007	2006
	($ thousands)	
Direct fund expenses (Note 7)	$ 189	$ 137
External management fees	1,973	1,590
Internal management expenses	234	205
	$ 2,396	$ 1,932
Expenses as a percentage of net assets at fair value	0.269%	0.271%

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	12.3%	8.6%
Benchmark return (1)	11.4%	7.8%

(1) The overall benchmark return for year ended March 31, 2007 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform to 2007 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, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 260	$ 260	$ 1,104	$ 1,104
Fixed income securities (a)				
Corporate, public and private	160,112	160,185	118,372	118,760
Government of Canada, direct and guaranteed	52,785	52,960	47,980	48,177
Provincial, direct and guaranteed:				
Alberta	77	81	79	85
Other provinces	30,664	33,283	30,819	32,924
Municipal	84	100	835	900
	243,722	246,609	198,085	200,846
Receivable from sale of investments and accrued investment income	2,453	2,453	4,200	4,200
Accounts payable and accrued liabilities	(1,227)	(1,227)	(1,680)	(1,680)
	1,226	1,226	2,520	2,520
	$ 245,208	$ 248,095	$ 201,709	$ 204,470

(a) Fixed income securities held as at March 31, 2007 have an average effective market yield of 4.56% per annum (2006: 4.78% per annum) and the following term structure based on principal amount:

	2007	2006
	%	%
under 1 year	4	2
1 to 5 years	31	32
5 to 10 years	36	35
10 to 20 years	10	12
over 20 years	19	19
	100	100

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SCHEDULE OF INVESTMENTS IN REAL ESTATE — Schedule B

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 98	$ 98	$ 35	$ 35
Real estate (a)				
Office	28,566	42,656	24,086	31,268
Retail	20,555	28,044	16,234	20,919
Industrial	10,644	11,110	6,163	6,580
Residential	3,121	3,886	2,831	2,847
	62,886	85,696	49,314	61,614
Foreign Private Equity Pool	3,741	3,752	1,929	1,891
Participation units	3,088	3,088	1,467	1,467
Accrued income and accounts receivable	55	55	131	131
	$ 69,868	$ 92,689	$ 52,876	$ 65,138

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

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 38,859	$ 50,110	$ 30,961	$ 37,516
Alberta	15,574	26,076	11,242	17,247
Quebec	7,274	7,870	6,106	5,634
British Columbia	1,179	1,640	1,005	1,217
	$ 62,886	$ 85,696	$ 49,314	$ 61,614

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF EFFECTVE INVESTMENTS IN CANADIAN EQUITIES — Schedule C

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 817	$ 817	$ 578	$ 578
Public equities (a) (b)				
Consumer discretionary	8,273	7,542	7,279	6,008
Consumer staples	3,733	3,237	3,871	3,352
Energy	31,530	30,852	28,776	31,647
Financials	38,366	40,045	32,380	33,398
Health Care	1,007	825	1,641	1,209
Industrials	5,831	6,274	6,529	6,823
Information technology	5,066	5,054	5,442	4,550
Materials	17,695	18,642	15,184	16,620
Telecommunication services	6,727	7,283	5,133	5,201
Utilities	1,134	1,054	1,281	1,145
	119,362	120,808	107,516	109,953
Receivable from sale of investments and accrued investment income	1,849	1,849	2,571	2,571
Accounts payable and accrued liabilities	(1,368)	(1,368)	(1,801)	(1,801)
	481	481	770	770
	$ 120,660	$ 122,106	$ 108,864	$ 111,301

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $56,018 (2006: $44,673).

(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 EFFECTVE INVESTMENTS IN UNITED STATES EQUITIES Schedule D

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 1,229	$ 1,229	$ 529	$ 529
Public equities (a) (b)				
Consumer discretionary	17,852	19,290	14,032	14,766
Consumer staples	15,003	15,962	11,695	11,724
Energy	15,165	16,961	11,598	13,142
Financials	35,208	37,668	28,025	29,418
Health care	20,008	21,327	17,121	17,977
Industrials	19,048	20,649	16,267	17,445
Information technology	24,554	26,432	20,461	21,595
Materials	5,560	6,096	4,466	4,968
Telecommunication services	5,246	5,751	3,872	4,040
Utilities	6,027	6,597	4,254	4,402
	163,671	176,733	131,791	139,477
Receivable from sale of investments and accrued investment income	1,058	1,058	4,655	4,655
Accounts payable and accrued liabilities	(1,714)	(1,714)	(3,705)	(3,705)
	(656)	(656)	950	950
	$ 164,244	$ 177,306	$ 133,270	$ 140,956

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $129,062 (2006: $72,011).

(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 EFFECTIVE INVESTMENTS IN NON-AMERICAN EQUITIES Schedule E

March 31, 2007

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 1,827	$ 1,827	$ 3,299	$ 3,299
Public equities (a) (b)				
Consumer discretionary	19,338	20,493	15,160	16,612
Consumer staples	10,676	11,306	8,626	8,407
Energy	10,760	11,145	9,155	10,435
Financials	43,694	46,783	35,236	40,591
Health care	10,345	10,189	9,627	9,768
Industrials	21,664	24,190	16,006	18,680
Information technology	11,390	11,168	8,994	9,458
Materials	11,150	12,320	9,619	11,320
Telecommunication services	9,788	10,039	8,526	7,679
Utilities	7,666	8,459	5,626	6,098
	156,471	166,092	126,575	139,048
Emerging markets pooled funds	3,010	4,007	2,150	2,846
	159,481	170,099	128,725	141,894
Receivable from sale of investments and accrued investment income	2,078	2,078	2,911	2,911
Accounts payable and accrued liabilities	(2,219)	(2,219)	(2,369)	(2,369)
	(141)	(141)	542	542
	$ 161,167	$ 171,785	$ 132,566	$ 145,735

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 $34,528 (2006: $14,916).

(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			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
United Kingdom	$ 33,521	$ 34,914	$ 26,628	$ 27,402
Japan	33,720	32,984	30,432	32,649
France	17,790	18,757	12,863	14,237
Germany	12,278	13,305	8,353	9,525
Switzerland	8,094	9,262	8,689	9,419
Netherlands	6,809	8,046	6,263	7,199
Spain	6,398	6,875	3,682	3,872
Australia	6,085	6,467	4,811	5,219
Italy	4,929	5,455	3,992	4,468
Sweden	2,879	3,126	2,498	2,879
Other	26,978	30,908	20,514	25,025
	$ 159,481	$ 170,099	$ 128,725	$ 141,894

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS **Schedule F**

Year Ended March 31, 2007

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 2007	2006	2005	2004	2003	Five Year Compound Annualized Return
Short-term fixed Income	**8.0**	**2.9**	**2.7**	**3.0**	**2.9**	**3.9**
Scotia Capital 91-day T-Bill Index	*4.2*	*2.8*	*2.2*	*3.0*	*2.7*	*3.0*
Absolute return strategies	**11.4**	**5.2**	**5.5**	**10.7**	**1.6****	**n/a**
HFRX Global Hedged Index	*5.8*	*10.1*	*8.1*	*6.7*	*4.7***	*n/a*
Long-term fixed income	**5.9**	**5.7**	**5.6**	**11.6**	**9.6**	**7.7**
Scotia Capital Universe Bond Index	*5.5*	*4.9*	*5.0*	*10.8*	*9.2*	*7.0*
Real estate	**24.5**	**20.7**	**16.9**	**7.5**	**9.8**	**15.7**
IPD Large Institutional All Property Index	*20.9*	*19.4*	*7.1*	*5.5*	*8.9*	*12.2*
Private income	**19.8**	**21.3**	**5.4**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*
Timberland Investments	**54.0**	**(4.9)***	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 4%	*6.0*	*4.2**	*n/a*	*n/a*	*n/a*	*n/a*
Canadian equities	**11.6**	**29.0**	**15.5**	**36.6**	**(17.1)**	**13.5**
S&P/TSX Composite Index	*11.4*	*28.4*	*13.9*	*37.7*	*(17.6)*	*13.1*
United States equities	**10.5**	**8.5**	**(1.7)**	**22.1**	**(30.4)**	**0.0**
S&P 1500 Index	*9.9*	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*(0.2)*
Non-North American equities	**17.7**	**23.9**	**7.4**	**40.9**	**(29.1)**	**9.4**
MSCI EAFE Index	*18.7*	*20.0*	*6.2*	*40.5*	*(29.3)*	*8.5*
Private equities	**16.6**	**12.3**	**0.6**	**1.2**	**(4.3)****	**n/a**
Consumer Price Index (CPI) plus 8%	*10.0*	*10.2*	*10.1*	*8.7*	*5.7***	*n/a*
Overall	**12.3**	**14.4**	**6.7**	**22.5**	**(10.2)**	**8.6**
Policy Benchmark	***11.4***	***13.6***	***5.4***	***21.6***	***(10.6)***	***7.8***

* Actual and benchmark returns are for nine months.

** Actual and benchmark returns are for six months.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

March 31, 2007

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, 2007 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, 2007 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 18, 2007

ALBERTA RISK MANAGEMENT FUND

BALANCE SHEET

As at March 31, 2007

	2007	2006
	($ thousands)	
ASSETS		
Cash and cash equivalents (Note 3)	$ 26,530	$ 22,215
Receivable from Province of Alberta	43	39
Accrued recoveries (Note 4)	267	189
	$ 26,840	$ 22,443
LIABILITIES AND NET LIABILITIES		
Liabilities		
Accounts payable (Note 5)	$ 483	$ 392
Liability for accrued claims (Note 6)	30,021	28,049
	30,504	28,441
Net liabilities	(3,664)	(5,998)
	$ 26,840	$ 22,443

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

STATEMENT OF OPERATIONS

Year Ended March 31, 2007

	2007		2006
	Budget	Actual	Actual
		($ thousands)	
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 9,240	$ 9,301	$ 8,048
Other entities	450	490	389
Subrogation and salvage	300	137	167
Interest	550	1,197	685
	10,540	11,125	9,289
Expenses			
Insurance claims	4,700	5,658	6,564
Insurance premiums to insurers	1,771	1,321	1,351
Administration	1,389	1,305	1,254
Other services	280	507	272
	8,140	8,791	9,441
Net revenue (expense)	$ 2,400	2,334	(152)
Net liabilities at beginning of year		(5,998)	(5,846)
Net liabilities at end of year		$ (3,664)	$ (5,998)

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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 $30.0 million (2006 $28.0 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 $36.0 million as at March 31, 2007, or $6.0 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, 2007, securities held by the CCITF have an average effective market yield of 4.39% (2006 4.0%) per annum and an average duration of 128 days (2006 120 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

	2007	2006
	($ thousands)	
Payable to Department of Finance	$ 381	$ 379
Other	102	13
	$ 483	$ 392

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

	2007	2006
	($ thousands)	
Outstanding claims case reserves (a)	$ 14,960	$ 14,873
Incurred but not reported losses (b)	15,061	13,176
	$ 30,021	$ 28,049

ALBERTA RISK MANAGEMENT FUND

Note 6 (continued)

(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, 2007 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.

The major assumptions used were:

	2007	2006
Trend rate		
General liability	5%	5%
Automobile liability	5%	5%
Property		3%
Through 2004 - 05	5%	
After 2004 - 05	10%	
Auto physical damage		5%
Through 2004 - 05	10%	
After 2004 - 05	15%	
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)	$ 1.28	$ 1.35
Automobile liability		
Loss per vehicle	$ 115	$ 125
Property		
Loss per $million property values	$ 135	$ 125
Auto physical damage		
Loss per vehicle	$ 145	$ 118
Crime		
Loss per class A and B employee	$ 62	$ 55

ALBERTA RISK MANAGEMENT FUND

Note 6 (continued)

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.

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2007:

Sensitivity Tests	**Increase in Net Liabilities ($ million)**
Increase the confidence level of the liability for accrued claims estimate from 50% to 90%	$ 6.0
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.05 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 20%, depending on coverage type	2.6
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors	0.8

NOTE 7 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2007 are as follows:

	($ thousands)
2007-08	$ 126
2008-09	129
	$ 255

NOTE 8 CONTINGENT LIABILITIES

At March 31, 2007, 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 9 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, 2007

AUDITOR GENERAL
Alberta

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, 2007 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, 2007 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 18, 2007

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

BALANCE SHEET

As At March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Investments (Note 3)	$58,081	$86,212
Receivable from the Province of Alberta	400	413
	58,481	86,625
Liabilities		
Liability for investment purchases	75	40,525
	58,406	46,100
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Notes 2(c) and 6)	58,406	46,100
Net Assets	$ -	$ -

STATEMENT OF CHANGES IN NET ASSETS

Year Ended March 31, 2007

	2007	2006
	($ thousands)	
Increase in assets		
Contributions from the Province of Alberta		
Current service	$ 4,981	$ 5,175
Unfunded liabilities	2,419	862
Investment income (Note 7)	4,906	1,232
	12,306	7,269
Decrease in assets		
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	12,306	7,269
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, 2007

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.

(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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Note 2 (continued)

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, cross-currency interest rate swaps and swap option contracts. 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.

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

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, 2007, current service contributions rates remained unchanged at 34.61% 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)

	2007			2006		
	Fair Value			Fair Value		
	($ thousands)		%	($ thousands)		%
Fixed Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$	5,269	9.1	$	45,683	53.0
Universe Fixed Income Pool (b)		19,061	32.8		16,525	19.2
Private Mortgage Pool (c)		1,392	2.4		-	-
Currency Alpha Pool (d)		27	0.1		-	-
Tactical Asset Allocation Pool (k)		196	0.3		-	-
Total fixed income securities		25,945	44.7		62,208	72.2
Canadian Equities (Schedule B)						
Canadian Structured Equity Pool (e)		3,763	6.5		3,325	3.9
Canadian Pooled Equities Fund (f)		2,541	4.4		2,025	2.3
Canadian Equity Enhanced Index Pool (g)		1,317	2.3		1,000	1.1
Canadian Large Cap Equity Pool (h)		890	1.5		700	0.8
Growing Equity Income Pool (i)		530	0.9		420	0.5
Canadian Multi-Cap Pool (j)		991	1.7		400	0.5
Tactical Asset Allocation Pool(k)		(811)	(1.4)		-	-
		9,221	15.9		7,870	9.1
United States Equities (Schedule C)						
U.S. Structured Equity Pool (l)		7,167	12.3		7,000	8.1
Portable Alpha US Equity Pool (m)		1,666	2.9		-	-
US Mid/Small Cap Equity Pool (n)		1,176	2.0		1000	1.2
Growing Equity Income Pool (i)		174	0.3		130	0.2
Tactical Asset Allocation Pool (k)		802	1.4		-	-
		10,985	18.9		8,130	9.4
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (o)		7,611	13.1		6,000	7.0
Emerging Markets Equity Pool (p)		654	1.1		500	0.6
EAFE Structured Equity Pooled Fund (q)		1,908	3.3		1,500	1.7
		10,173	17.5		8,000	9.3
Alternative Investment- Equities						
Private Income Pool (r)		389	0.7		4	-
Total equities		30,768	52.9		24,004	27.8
Real Estate						
Private Real Estate Pool (s)		1,368	2.4		-	-
Total investments	$	58,081	100.0	$	86,212	100.0

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

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 Universe Fixed Income Pool (formerly 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 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.

(e) The Canadian Structured Equity Pool (formerly 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.

(f) 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.

(g) The 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 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.

(i) 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.

(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.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Note 3 (continued)

(k) 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, 2007, the Pool is comprised of a short position through Canadian equity index futures contracts and a long position through United States 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.

(l) On November 30, 2006, all of the investments held in the S&P 500 Index Pool were transferred to the newly created US Structured Equity Pool. The U.S. Structured Equity Pool 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.

(m) The Portable Alpha U.S. Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicated 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 the long term.

(n) The 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.

(o) The 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.

(p) The 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.

(q) 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.

(r) The Private Income Pool (PIP) is managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 6% over the long term. The PIP invests in infrastructure related projects that are structured to yield high current income.

(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.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

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 46% fixed income instruments and 54% 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.

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.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS 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, 2007:

	Maturity			2007		2006	
	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	78	22	-	$ 13,413	$ (18)	7,873	165
Credit default swap contracts	1	4	95	28,888	(97)	5,449	13
Swap option contracts	66	24	10	21,658	1		
Interest rate swap contracts	9	52	39	11,690	(24)	4,148	(8)
Cross-currency interest rate swap contracts	21	43	36	4,327	118	2,835	206
Bond index swap contracts	100	-	-	6,753	9	989	98
Equity index futures contracts	100	-	-	4,463	109	751	24
Forward foreign exchange contracts	100	-	-	2,130	(11)	447	3
				$ 93,322	$ 87	$ 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, 2007.

As at March 31, 2007, the Unregistered Plan reported an actuarial surplus (deficiency) of $3.9 million (2006 ($4.4 million)), taking into account the amounts owing from the Reserve Fund.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

NOTE 7 INVESTMENT INCOME

(a) Net investment income is comprised of the following:

	2007	2006
	($ thousands)	
Interest income	$ 1,670	$ 1,232
Dividend income	441	-
Real estate income	25	-
Security lending income	12	-
Administration expenses	(57)	-
Net realized and unrealized gains on investment including those arising from derivative transactions	2,815	-
	$ 4,906	$ 1,232

(b) The following is a summary of the Reserve Fund's proportionate share of net investment income by type of investment.

	2007	2006
	($ thousands)	
Fixed Income Securities	$ 1,254	$ 1,232
Canadian Equities	1,026	-
Foreign Equities		
United States	938	-
Non-North American	1,545	-
Real Estate	135	-
Alternative investments	8	-
	$ 4,906	$ 1,232

NOTE 8 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2007 presentation.

NOTE 9 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 FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2007

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 5,427	$ 45,785
Fixed income securities (a)		
Government of Canada, direct and guaranteed	4,644	4,480
Provincial, direct and guaranteed		
Alberta	7	8
Other	2,813	2,932
Municipal	9	84
Corporate, public and private	12,944	8,696
	20,417	16,200
Receivable from sale of investments and accrued investment income	207	354
Liabilities for investment purchases	(106)	(131)
	101	223
	$ 25,945	$ 62,208

(a) Fixed income securities held as at March 31, 2007 had an average effective market yield of 4.54% per annum (2006: 4.70% per annum). The following term structure of these securities as at March 31, 2007 was based on principal amount:

	2007	2006
	%	
under 1 year	4	2
1 to 5 years	32	34
6 to 10 years	35	33
11 to 20 years	10	12
over 20 years	19	19
	100	**100**

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

SCHEDULE OF EFFECTIVE INVESTMENTS IN CANADIAN EQUITIES — Schedule B

March 31, 2007

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 61	$ 37
Public equities (a) (b)		
Consumer discretionary	569	416
Consumer staples	245	233
Energy	2,329	2,235
Financials	3,026	2,385
Health care	62	84
Industrials	473	476
Information technology	381	325
Materials	1,410	1,177
Telecommunication services	550	372
Utilities	80	80
	9,125	7,783
Receivable from sale of investments and accrued investment income	138	171
Liabilities for investment purchases	(103)	(121)
	35	50
	$ 9,221	$ 7,870

(a) Direct investments and derivative contracts are classifed based on the risk exposure to the above asset mix categories. 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 $4,226 (2006 $2,510).

(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 EFFECTIVE INVESTMENTS IN UNITED STATES EQUITIES Schedule C

March 31, 2007

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 59	$ 29
Public equities (a) (b)		
Consumer discretionary	1,191	853
Consumer staples	996	681
Energy	1,056	758
Financials	2,350	1,706
Health care	1,316	1,033
Industrials	1,277	1,003
Information technology	1,634	1,245
Materials	374	284
Telecommunication services	359	234
Utilities	409	254
	10,962	8,051
Receivable from sale of investments and accrued investment income	60	318
Liabilities for investment purchases	(96)	(268)
	(36)	50
	$ 10,985	$ 8,130

(a) Direct investments and derivative contracts are classifed based on the risk exposure to the above asset mix categories. 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 $7,917 (2006 $3,451).

(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 EFFECTIVE INVESTMENTS IN NON-AMERICAN EQUITIES Schedule D

March 31, 2007

	Reserve Fund's Share 2007	Reserve Fund's Share 2006
	($ thousands)	
Deposits and short-term securities	$ 108	$ 182
Public equities (a)		
Consumer discretionary	1,210	899
Consumer staples	664	459
Energy	659	568
Financials	2,761	2,213
Health care	598	526
Industrials	1,427	1,012
Information technology	659	515
Materials	729	624
Telecommunications services	594	417
Utilities	500	333
	9,801	7,566
Emerging market pooled funds	273	194
Receivable from sale of investments and accrued investment income	122	232
Liabilities for investment purchases	(131)	(174)
	(9)	58
	$ 10,173	$ 8,000

(a) Direct investments and derivative contracts are classifed based on the risk exposure to the above asset mix categories. 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 $1,891 (2006: $1,433).

(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 2007	Reserve Fund's Share 2006
	($ thousands)	
United Kingdom	$ 2,061	$ 1,489
Japan	1,935	1,761
France	1,102	770
Germany	781	514
Switzerland	543	510
Netherlands	473	391
Spain	404	208
Australia	378	280
Italy	320	241
Sweden	183	156
Other	1,894	1,440
	$ 10,074	$ 7,760

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE — Schedule E

March 31, 2007

	Fund's share 2007	Fund's share 2006
Deposits and short-term securities	$ 2	$ -
Real Estate (a)		
Office	656	-
Retail	431	-
Industrial	171	-
Residential	60	-
	1,318	-
Participation units	47	-
Accrued income and accounts receivable	1	-
	$ 1,368	$ -

(a) The follwoing is a summary of the Plan’s investment in real estate by geographic location:

	Fund's share 2007	Fund's share 2006
Ontario	$ 771	$ -
Alberta	401	-
Quebec	121	-
British Columbia	25	-
	$ 1,318	$ -

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

SCHEDULE OF INVESTMENT RETURNS **Schedule F**

Year Ended March 31, 2007

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.

	2007
Time-weighted rates of return	
Short-term fixed Income	**4.3**
Scotia Capital 91-day T-Bill Index	*4.2*
Long-term fixed income	**5.9**
Combined benchmark	*5.5*
Canadian equities	**11.5**
S&P/TSX Composite Index	*11.4*
United States equities	**10.4**
Standard &Poor's 1500 Index	9.9
Non-North American equities	**17.5**
MSCI EAFE Index	*18.7*
Real Estate (a)	**n/a**
IPD Large Institutional All Property Index(a)	*n/a*
Alternative investments	**4.4**
Combined benchmark	*3.3*
Overall	**9.3**
Policy Benchmark	***9.3***

The current sector benchmark indices are as of March 31, 2007. Benchmark indices may have been different in prior years, therefore the benchmark may be a blend of different indices.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

March 31, 2007

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, 2007 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, 2007 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 18, 2007

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

BALANCE SHEET

As At March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Investments (Note 3)	$ 28,068	$ 23,997
Receivable from participating employers	71	81
	28,139	24,078
Liabilities		
Liability for investment purchases	40	-
	28,099	24,078
Amounts owing to the Supplementary Retirement Plan for Public Service Managers (Notes 2(f) and 6)	28,099	24,078
Net Assets	$ -	$ -

STATEMENT OF CHANGES IN NET ASSETS

Year Ended March 31, 2007

	2007	2006
	($ thousands)	
Increase in assets		
Contributions from participating employers	$ 1,074	$ 1,074
Net investment income (Note 7)	2,947	2,957
	4,021	4,031
Decrease in assets		
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	4,021	4,031
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, 2007

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, cross-currency interest rate swaps, and swap option contracts. 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 based on discounted cash flows using current market yields and year-end exchange rates.

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

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, 2007 was 5.8% (2006 5.8%) 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)

	2007		2006	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 134	0.5	$ 240	1.0
Universe Fixed Income Pool (b)	6,429	22.9	5,963	24.8
Private Mortgage Pool (c)	1,455	5.2	1,243	5.2
Currency Alpha Pool (d)	48	0.2	11	-
Tactical Asset Allocation Pool (e)	113	0.4	45	0.2
Total fixed income securities	8,179	29.2	7,502	31.3
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (f)	2,091	7.4	2,045	8.5
Canadian Pooled Equities Fund (g)	1,436	5.1	1,264	5.3
Canadian Equity Enhanced Index Pool (h)	691	2.5	616	2.6
Canadian Large Cap Equity Pool (i)	579	2.1	442	1.8
Growing Equity Income Pool (j)	308	1.1	259	1.1
Canadian Multi-Cap Pool (k)	571	2.0	228	0.9
Tactical Asset Allocation Pool (e)	(464)	(1.7)	(233)	(1.0)
	5,212	18.6	4,621	19.2
United States Equities (Schedule C)				
S&P 500 Pooled Index Fund	-	-	4,631	19.3
U.S. Mid/Small Cap Equity Pool (l)	673	2.4	492	2.1
Growing Equity Income Pool (j)	102	0.4	80	0.3
Portable Alpha U.S. Equity Pool(m)	1,042	3.7	-	-
U.S. Structured Equity Pool(n)	4,071	14.5	-	-
Tactical Asset Allocation Pool (e)	458	1.6	235	1.0
	6,346	22.6	5,438	22.7
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (o)	4,415	15.7	3,782	15.8
EAFE Passive Equity Pool	-	-	984	4.1
Emerging Markets Equity Pool (p)	380	1.3	319	1.3
EAFE Structured Equity Pooled Fund (q)	1,394	5.0	194	0.8
	6,189	22.0	5,279	22.0
Alternative Investments - Equities				
Timberlands Pool (s)	186	0.7	132	0.5
Private Income Pool(t)	236	0.8	2	-
	422	1.5	134	0.5
Real Estate Equities (Schedule E)				
Private Real Estate Pool (r)	1,720	6.1	1,023	4.3
Total equities	19,889	70.8	16,495	68.7
Total investments	$ 28,068	100.0	$ 23,997	10.0

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 Universe Fixed Income Pool (formly 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 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 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, 2007, the Pool is comprised of a short position through Canadian equity index futures contracts and a long position through United States 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 Canadian Structured Equity Pool (formly 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 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.

(h) The 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 moving average period 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 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.

(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.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

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 U.S. 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 U.S. 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.

(m) The Portable Alpha U.S. 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 Standard & Poor's S&P 500 Index over a four-year period.

(n) On November 30, 2006, all of the investments held in the S&P 500 Index Pool were transferred to the newly created U.S. Structured Equity Pool. The U.S. Structured Equity Pool 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 over a four-year period. 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.

(o) The 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.

(p) The 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

(q) 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 Pool 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.

(r) 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.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 3 (continued)

(s) The Timberlands Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term.

(t) 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 provide high current income .

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 45% fixed income instruments and 55% 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.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Note 5 (continued)

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.

Swap option contracts include the right, but not the obligation, to enter into an interest swap at a preset rate within a specified period of time.

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, 2007:

	Maturity			2007		2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
		%			($ thousands)		
Credit default swap contracts	1	5	94	$ 9,940	$ (32)	$ 2,044	$ 5
Equity index swap contracts	78	22	-	7,986	(9)	4,288	76
Swap option contracts	66	25	9	7,305	1	-	-
Interest rate swap contracts	13	50	37	4,587	(14)	1,916	(4)
Forward foreign exchange contracts	100	-	-	2,554	(7)	778	-
Equity index futures contracts	100	-	-	2,546	62	1,267	22
Bond index swap contracts	100	-	-	2,306	7	414	50
Cross-currency interest rate swap contracts	23	45	32	2,296	70	1,420	110
				$ 39,520	$ 78	$ 12,127	$ 259

(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, 2005 by Aon Consulting Inc. and was then extrapolated to December 31, 2006.

As at December 31, 2006, the SRP reported an actuarial surplus of $3.7 million (2005 $10.0 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:

	2007	2006
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 1,941	$ 2,136
Interest income	669	597
Dividend income	307	201
Real estate operating income	62	43
Security lending income	8	7
Administration expenses	(40)	(27)
	$ 2,947	$ 2,957

The following is a summary of the Fund's proportionate share of net investment income by type of investments:

	2007	2006
	($ thousands)	
Fixed Income Securities	$ 462	$ 583
Canadian Equities	597	917
Foreign Equities		
United States	556	361
Non-North American	947	944
Alternative investments	70	(11)
Real Estate	315	163
	$ 2,947	$ 2,957

NOTE 8 SUBSEQUENT EVENT

Effective April 1, 2007, the employer only contribution rate to the Retirement Compensation Arrangement (RCA) Reserve Fund of the Supplementary Retirement Plan (SRP) will be increased from 5.8% to 11.4% of SRP members' annual pensionable salary above $111,111.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2007 presentation.

NOTE 10 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, 2007

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 242	$ 296
Fixed income securities (a)		
Government of Canada, direct and guaranteed	1,585	1,650
Provincial, direct and guaranteed		
Alberta	2	3
Other	1,008	1,123
Municipal	3	30
Corporate, public and private	5,302	4,310
	7,900	7,116
Receivable from sale of investments and accrued investment income	74	151
Liabilities for investment purchases	(37)	(61)
	37	90
	$ 8,179	$ 7,502

(a) Fixed income securities held as at March 31, 2007 had an average effective market yield of 4.61% (2006 4.78%) per annum. The following term structure of these securities as at March 31, 2007 was based on principal amount:

	2007	2006
	%	
under 1 year	4	3
1 to 5 years	29	31
6 to 10 years	38	35
11 to 20 years	10	12
over 20 years	19	19
	100	100

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF EFFECTIVE INVESTMENTS IN CANADIAN EQUITIES — Schedule B

March 31, 2007

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 37	$ 23
Public equities (a) (b)		
Consumer discretionary	324	249
Consumer staples	139	139
Energy	1,312	1,314
Financials	1,708	1,388
Health care	35	50
Industrials	270	282
Information technology	216	190
Materials	792	691
Telecommunication services	314	217
Utilities	45	48
	5,155	4,568
Receivable from sale of investments and accrued investment income	79	105
Liabilities for investment purchases	(59)	(75)
	20	30
	$ 5,212	$ 4,621

(a) Direct investments and derivative contracts are classified based on risk exposure to the above asset mix categories. The Reserve 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 $2,375 (2006 $1,764).

(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 EFFECTIVE INVESTMENTS IN UNITED STATES EQUITIES Schedule C

March 31, 2007

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 36	$ 14
Public equities (a) (b)		
Consumer discretionary	688	567
Consumer staples	575	469
Energy	610	513
Financials	1,359	1,145
Health care	760	690
Industrials	737	659
Information technology	943	832
Materials	216	183
Telecommunication services	207	162
Utilities	236	170
	6,331	5,390
Receivable from sale of investments and accrued investment income	35	210
Liabilities for investment purchases	(56)	(176)
	(21)	34
	$ 6,346	$ 5,438

(a) Direct investments and derivatives contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in United States public equities includes the notional amount of US equity index swap contracts and equity index futures contracts totalling $4,594 (2005 $2,518).

(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 EFFECTIVE INVESTMENTS IN NON-AMERICAN EQUITIES Schedule D

March 31, 2007

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 65	$ 118
Public equities (a) (b)		
Consumer discretionary	735	606
Consumer staples	408	300
Energy	401	380
Financials	1,687	1,472
Health care	366	353
Industrials	860	676
Information technology	398	340
Materials	448	408
Telecommunications services	360	276
Utilities	306	222
	5,969	5,033
Emerging market pooled funds	158	124
	6,127	5,157
Receivable from sale of investments and accrued investment income	74	63
Liabilities for investment purchases	(77)	(59)
	(3)	4
	$ 6,189	$ 5,279

(a) Direct investments and derivative contracts are classified based on risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in non-North American public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totaling $1,379 (2006: $186).

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

	Reserve Fund's Share	
	2007	2006
	($ thousands)	
United Kingdom	$ 1,261	$ 1,001
Japan	1,185	1,177
France	668	510
Germany	475	343
Switzerland	334	339
Netherlands	285	256
Spain	246	141
Australia	236	190
Italy	196	162
Sweden	114	104
Other	1,127	934
	$ 6,127	$ 5,157

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2007

	Reserve Fund's Share 2007	Reserve Fund's Share 2006
	($ thousands)	
Deposits and short-term securities	$ 2	$ -
Real estate (a)		
Office	825	507
Retail	542	338
Industrial	215	106
Residential	75	46
	1,657	997
Passive index	60	24
Receivable from sale of investments and accrued investment income	1	2
	$ 1,720	$ 1,023

(a) The following is a summary of the Reserve Fund's investment in real estate by geographic locations:

	Reserve Fund's Share 2007	Reserve Fund's Share 2006
	($ thousands)	
Ontario	$ 969	$ 607
Alberta	504	279
Quebec	152	91
British Columbia	32	20
	$ 1,657	$ 997

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENTS RETURNS

Schedule F

Year Ended March 31, 2007

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.

	2007	2006	2005	3 Year Compound Annualized Return
Time-weighted rates of return				
Short-term fixed income	**6.8**	**3.0**	**3.0**	**4.1**
Scotia Capital 91-day T-Bill Index	*4.2*	*2.8*	*2.2*	*3.1*
Long-term fixed income	**5.3**	**6.3**	**5.6**	**6.1**
Combined benchmark	*4.9*	*5.6*	*5.0*	*5.2*
Canadian equities	**11.5**	**29.0**	**14.7**	**18.0**
S&P/TSX Composite Index	*11.4*	*28.4*	*13.9*	*17.7*
United States Equities	**10.8**	**8.3**	**(1.3)**	**5.1**
Standard & Poor's 1500 Index	*9.9*	*9.1*	*(1.0)*	*5.9*
Non-North American equities	**17.7**	**23.6**	**7.0**	**15.4**
MSCI EAFE Index	*18.7*	*20.0*	*6.2*	*14.8*
Real Estate	**25.1**	**21.3**	**13.9**	**n/a**
IPD Large Institutional All Property Index	*20.9*	*18.1*	*17.6*	n/a
Alternative Investments	21.8	**n/a**	**n/a**	**n/a**
Combined benchmark	6.5	n/a	n/a	n/a
Overall	**10.2**	**13.3**	**6.7**	**10.1**
Policy Benchmark	10.0	12.4	6.2	9.6

The current sector benchmark indices are as of March 31, 2007. 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, 2006

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, 2006 and the statements of income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility 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 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 Authority as at December 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
February 14, 2007

ALBERTA CAPITAL FINANCE AUTHORITY

BALANCE SHEET

As at December 31, 2006

	2006		2005
	Budget	Actual	Actual
		($ thousands)	
Assets:			
Cash (Note 3)	$ 78,553	$ 20,800	$ 10,304
Accrued interest receivable	103,597	103,245	109,662
Loans to local authorities (Note 4)	4,472,139	4,898,705	4,293,356
	$ 4,654,289	$ 5,022,750	$ 4,413,322
Liabilities and Shareholders' Equity:			
Liabilities:			
Accrued interest payable	$ 58,590	$ 56,827	$ 53,751
Debt (Note 5 and Schedule 1)	4,589,190	4,950,185	4,347,834
	4,647,780	5,007,012	4,401,585
Shareholders' equity:			
Share capital (Note 6)			
Issued and fully paid:			
6,384 shares (2005 - 6,378)	64	64	64
Retained earnings	6,445	15,674	11,673
	6,509	15,738	11,737
	$ 4,654,289	$ 5,022,750	$ 4,413,322

The acompanying notes are part of these financial statements.

D. O. Lussier
Chair of the Board

T. S. Stroich, FCA
President

ALBERTA CAPITAL FINANCE AUTHORITY

STATEMENT OF INCOME AND RETAINED EARNINGS

For the Year Ended December 31, 2006

	2006		2005
	Budget	Actual	Actual
		($ thousands)	
Interest Income:			
Loans	$ 266,699	$ 284,849	$ 277,000
Amortization of loan discounts	4,027	4,027	6,424
Other (Note 3)	4,500	5,517	2,594
	275,226	294,393	286,018
Interest Expense:			
Debt	277,951	290,082	285,312
Amortization of net discounts on debt	760	1,556	796
	278,711	291,638	286,108
Net interest income (expense)	(3,485)	2,755	(90)
Other Income:			
Loan prepayment fees	-	2,127	66
Net interest income (expense) and other income	(3,485)	4,882	(24)
Non-Interest Expense:			
Administration and office expenses (Note 7)	962	881	967
Net income (loss)	(4,447)	4,001	(991)
Retained earnings, beginning of year	10,892	11,673	12,664
Retained earnings, end of year	$ 6,445	$ 15,674	$ 11,673

The acompanying notes are part of these financial statements.

ALBERTA CAPITAL FINANCE AUTHORITY

STATEMENT OF CASH FLOW

For the Year Ended December 31, 2006

	2006		2005
	Budget	Actual	Actual
		($ thousands)	
Operating Activities:			
Interest received	$ 272,627	$ 291,266	$ 289,326
Other interest	4,500	5,517	2,594
Loan prepayment fees	-	2,127	66
Administration and office expenses	(962)	(881)	(967)
Interest paid	(273,052)	(287,006)	(287,890)
Cash flows from operating activities	3,113	11,023	3,129
Investing Activities:			
Loan repayments	409,746	446,349	500,825
New loans issued	(636,000)	(1,047,671)	(651,937)
Cash flows used in investing activities	(226,254)	(601,322)	(151,112)
Financing Activities:			
Debt issues	641,992	1,171,191	967,866
Debt redemptions	(401,396)	(570,396)	(832,604)
Cash flows from financing activities	240,596	600,795	135,262
Net (increase) decrease in cash	17,455	10,496	(12,721)
Cash, beginning of year	61,098	10,304	23,025
Cash, end of year	$ 78,553	$ 20,800	$ 10,304

The acompanying notes are part of these financial statements.

ALBERTA CAPITAL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006
(all amounts presented in thousands of dollars, except share amounts)

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. Under the Act, the Authority is restricted to making loans only to its shareholders.

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 collectability 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.

ALBERTA CAPITAL FINANCE AUTHORITY

Note 2 (continued)

(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.

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 Income 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 Income 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 Income 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.

(f) Financial Instruments and Hedges

The Canadian Institute of Chartered Accountants (CICA) has issued three new accounting standards. CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, Section 3865, Hedges; and Section 1530, Comprehensive Income. These standards are effective for ACFA beginning January 1, 2007. The principal impacts of the standards are as follows:

Financial assets can be classified as available for sale, held to maturity, trading or loans and receivables. Financial liabilities can be classified as trading or other. All ACFA financial assets and liabilities will be recorded on the balance sheet at fair value and all previously designated hedging relationships will be voluntarily de-designated. All financial assets and liabilities including loans and receivable and long-term debt respectively, will be classified as trading assets and will be accounted for at fair value with realized and unrealized gains and losses reported through net income.

ALBERTA CAPITAL FINANCE AUTHORITY

Note 2 (continued)

The prospective change to fair value accounting will add the potential for greater volatility to future reporting periods as changes in the fair value of loans, debt and related derivative financial instruments will be measured and recorded in the financial statements. While all of the transitional requirements of voluntarily de-designating existing hedge relationships, designating all loans and debt are held for trading and adopting the other requirements of Sections 3855, 3865 and 1530 have not been assessed, the opening change on adopting this new basis of accounting will be an increase in the net assets of ACFA by approximately $116 million.

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, 2006, securities held by the Fund have an average effective market yield of 4.55% per annum (December 31, 2005 - 3.62% per annum).

NOTE 4 LOANS TO LOCAL AUTHORITIES

	2006	2005
Loans to local authorities	$ 4,902,639	$ 4,301,317
Less: Unamortized discounts	3,934	7,961
	$ 4,898,705	$ 4,293,356

NOTE 5 DEBT

(a) The debt of the Authority is fully guaranteed by the Province of Alberta.

(b) Debt amounting to $643,000 (2005 - $565,000) 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).

(c) 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
2007	$ 978,383
2008	259,294
2009	330,523
2010	200,000
2011	250,000
	$ 2,018,200

ALBERTA CAPITAL FINANCE AUTHORITY

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	865	8,650
C	Cities	750	585	5,850
D	Towns and villages	750	297	2,970
E	Educational authorities	500	137	1,370
		7,500	6,384	$63,840

During the year, five Class B and one Class D shares were issued at $10.00 each.

NOTE 7 DIRECTORS' AND AUDIT COMMITTEE FEES AND RELATED PARTY TRANSACTIONS

Directors' and Audit Committee fees paid by the Authority are as follows:

	2006		2005	
	Number of Individuals	Total	Number of Individuals	Total
Board/Audit Committee Chairs	2	$ 7	1	$ 6
Board members/Audit Committee	8	$ 20	6	$ 16

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 Housing 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, 2006 is principal of $15,568 (2005 - $12,978), upon which, interest of $215 (2005 - $188) has been recorded in interest income from loans.

The Authority has no employees. Included in administration and office expenses of $881 (2005 - $967) is the amount of $406 (2005 - $417) that was paid to the controlling shareholder, Province of Alberta for goods and services at prices measured at the exchange amount, which approximate market.

ALBERTA CAPITAL FINANCE AUTHORITY

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 - 2006	$652,290	$639	$181,175	$976,856	$2,516,099	$4,327,059
Interest rate swaps - 2005	$449,000	$21,380	$102,477	$419,070	$1,342,707	$2,334,634

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 - 2006	$ 4,327,059	$ (9,993)	$ 39,322	$ (49,315)
Interest rate swaps - 2005	$ 2,334,634	$ (12,393)	$ 27,802	$ (40,195)

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 have a good credit standing (A+ or greater).

ALBERTA CAPITAL FINANCE AUTHORITY

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	2006 Total	2005 Total
Assets							
Cash	$ 20,800	$ -	$ -	$ -	$ -	$20,800	$10,304
Accrued Interest Receivable	103,245	-	-	-	-	103,245	109,662
Loans to Local Authorities	489,289	365,556	1,133,947	1,275,270	1,638,577	4,902,639	4,301,317
Effective Rate	6.4%	6.3%	6.0%	5.7%	5.4%	6.0%	6.4%
Total	$ 613,334	$ 365,556	$ 1,133,947	$ 1,275,270	$ 1,638,577	$ 5,026,684	$ 4,421,283
Liabilities							
Accrued Interest Payable	$ 56,827	$ -	$ -	$ -	$ -	$ 56,827	$ 53,751
Debt	978,383	259,294	780,523	1,600,000	1,345,763	4,963,963	4,355,963
Effective Rate	6.6%	6.0%	5.4%	5.3%	5.2%	5.7%	6.3%
Total	$ 1,035,210	$ 259,294	$ 780,523	$ 1,600,000	$ 1,345,763	$ 5,020,790	$ 4,409,714
Cumulative Gap	$ (421,876)	$ 106,262	$ 353,424	$ (324,730)	$ 292,814	$ 5,894	$ 11,569

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 agreements 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 below 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.

ALBERTA CAPITAL FINANCE AUTHORITY

Note 10 (continued)

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:

	2006		2005	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Loans, including accrued interest receivable	$5,349,892	$5,001,950	$4,826,948	$4,403,018
Debt, including accrued interest payable	$5,228,600	$5,007,012	$4,772,766	$4,401,585

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.

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:

	2006	2005
Loan commitments as at December 31	$30,308	$17,381

NOTE 12 BUDGET

The 2006 budget was approved by the Board of Directors on November 24, 2005.

ALBERTA CAPITAL FINANCE AUTHORITY

SCHEDULE TO THE FINANCIAL STATEMENT

SCHEDULE OF DEBT

Schedule 1

As at December 31, 2006

Maturity Date	First Extendible Date	Interest Rate	Principal Outstanding	
			($ thousands)	
Canada Pension Plan Investment Fund/CPP Investment Board				
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	
Nov. 3, 2026		4.490	200,000	
Nov. 3, 2031		4.500	$ 125,396	
Total			1,850,963	
Public				
Mar 24, 2008	Mar 26, 2007	3.200	16,000	(i)
Mar 01, 2010		4.550	50,000	
Jun 15, 2010	Jun 15, 2007	4.200	10,000	(i)
Aug 20, 2010		4.500	150,000	
Jun 23, 2011	Jun 25, 2007	3.200	10,000	(i)
Sep 01, 2011		5.700	200,000	
Sep 06, 2011	Sep 06, 2007	4.300	10,000	(i)
Sep 11, 2011	Sep 11, 2007	4.300	20,000	(i)
Sep 15, 2011	Mar 15, 2007	3.550	10,000	(i)
Dec 15, 2011		4.435	50,000	
Dec 15, 2011	Jun 15, 2007	3.450	13,000	(i)
May 11, 2012	May 11, 2007	3.750	10,000	(i)
Jun 01, 2012		5.850	500,000	
Aug 28, 2012	Aug 28, 2007	4.300	10,000	(i)
Jun 28, 2013	Jun 28, 2007	3.650	15,000	(i)
Oct 12, 2013	Apr 12, 2007	3.500	10,000	(i)
Oct 30, 2013	Oct 30, 2007	4.250	10,000	(i)
Dec 02, 2013		5.000	300,000	
Dec 15, 2014	Jun 15, 2007	4.500	25,000	(i)
Dec 15, 2014	Jun 15, 2007	4.500	30,000	(i)
Mar 23, 2015	Mar 23, 2007	4.350	20,000	(ii)
Mar 30, 2015	Mar 30, 2007	4.100	15,000	(i)
Apr 06, 2015	Apr 09, 2007	4.200	15,000	(i)
Jun 01, 2015		4.900	200,000	
Jun 15, 2015	Jun 15, 2007	4.050	10,000	(i)
Jun 15, 2015	Jun 15, 2007	4.150	45,000	(i)
Jun 15, 2015	Jun 15, 2007	4.000	17,000	(i)

ALBERTA CAPITAL FINANCE AUTHORITY

SCHEDULE OF DEBT

Schedule 1 (continued)

As at December 31, 2006

Maturity Date	First Extendible Date	Interest Rate	Principal Outstanding	
			($ thousands)	
Public				
Jun 15, 2015	Jun 15, 2007	3.350	15,000	(i)
Jun 23, 2015	Jun 25, 2007	3.750	15,000	(ii)
Jun 28, 2015	Jun 28, 2007	4.300	20,000	(ii)
Sep 15, 2015	Mar 15, 2007	4.240	10,000	(ii)
Dec 15, 2015	Jun 15, 2007	4.150	20,000	(i)
Jun 15, 2016	Jun 15, 2007	4.000	25,000	(i)
Jun 15, 2016		4.350	600,000	
May 15, 2017	May 15, 2007	4.000	25,000	(i)
Jun 16, 2017	Jun 18, 2007	4.000	18,000	(i)
Jun 28, 2017	Jun 28, 2007	4.050	30,000	(i)
Aug 15, 2017	Feb 15, 2007	4.000	35,000	(i)
Dec 15, 2017	Dec 15, 2007	4.050	10,000	(i)
Jun 01, 2018		5.150	100,000	
Nov 16, 2018	Nov. 16, 2007	4.600	18,000	(i)
Dec 01, 2023		5.100	20,000	
Jun 15, 2025	Jun 15, 2007	5.150	20,000	(ii)
Jul 06, 2025	Jan 08, 2007	5.020	16,000	(ii)
Dec 15, 2025		4.450	300,000	
Oct 11, 2030	Oct 11, 2007	5.160	15,000	(ii)
Dec 15, 2030	Jun 15, 2007	5.160	10,000	(ii)
Dec 15, 2030	Dec 17, 2007	5.410	10,000	(ii)
Dec 15, 2030	Jun 15, 2007	5.400	10,000	(ii)
Total			3,113,000	
			4,963,963	
Net unamortized discount			13,778	
Total debt 2006			$4,950,185	
Total debt 2005, net of unamortized discount			$4,347,834	

(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, 2006

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, 2006 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, 2006, 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
April 24, 2007

Pricewaterhouse Coopers LLP
Chartered Accountants

ALBERTA INSURANCE COUNCIL

STATEMENT OF FINANCIAL POSITION

As at December 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash (Note 3)	$ 4,066,246	$ 2,995,419
Accounts receivable	27,050	24,905
Prepaid expenses	67,181	29,857
	4,160,477	3,050,181
Recoverable program development costs	-	1,757
Deferred examination development costs (Note 4)	15,037	26,074
Property and equipment (Note 5)	439,965	300,071
	$ 4,615,479	$ 3,378,083
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 278,200	$ 158,580
Deferred tenant inducement	-	4,336
Deferred license and assessment fee revenue	1,165,771	1,102,622
	1,443,971	1,265,538
NET ASSETS		
Net assets		
Invested in property and equipment	439,965	300,071
Invested in program and development	15,037	26,074
Unrestricted	2,716,506	1,786,400
	3,171,508	2,112,545
	$ 4,615,479	$ 3,378,083

Approved by the Audit Committee

Steward Douglas

Allister Brekke

ALBERTA INSURANCE COUNCIL

STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended December 31, 2006

	Invested in property and equipment	Invested examination development	Unrestricted	Total 2006	Total 2005
Balance - Beginning of year	$ 300,071	$ 26,074	$ 1,786,400	$2,112,545	$ 1,628,218
Excess of revenue over expenditures	(139,996)	(11,037)	1,209,996	1,058,963	484,327
Invested in property and equipment	279,890	-	(279,890)	-	-
Balance - End of year	$ 439,965	$ 15,037	$2,716,506	$3,171,508	$2,112,545

ALBERTA INSURANCE COUNCIL

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2006

	Budget 2006 (Unaudited)	2006	2005
Revenue			
License, assessment, examination and continuing education fees	$ 3,525,000	$ 3,866,338	$ 3,334,205
Interest and other	75,000	147,730	80,340
	3,600,000	4,014,068	3,414,545
Expenditures			
Salaries and benefits	1,940,000	1,699,457	1,640,162
Occupancy and premises (Note 6)	295,900	256,284	262,478
Councils, Boards and Committees (Note 7)	255,750	190,283	194,088
Amortization and depreciation	180,000	151,033	242,398
Communications (Note 8)	163,000	137,295	115,812
Professional fees (Nopte 9)	136,000	132,130	105,301
Office and administration (Note 10)	142,100	129,875	131,046
Software and computer	200,000	110,533	98,927
Travel	110,000	86,957	117,083
Total expenditures before special projects	3,422,750	2,893,847	2,907,295
Special projects			
Legal fees - Intervenor status	75,000	39,298	9,373
General and adjuster examination - Review and revision	-	21,960	13,550
Total expenditure for the year	3,497,750	2,955,105	2,930,218
Excess of revenue over expenditures	$ 102,250	$ 1,058,963	$ 484,327

ALBERTA INSURANCE COUNCIL

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006

	2006	2005
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures	$ 1,058,963	$ 484,327
Items not affecting cash		
Amortization of property and equipment	139,996	140,993
Amortization of examination and program development costs	11,037	101,405
Amortization of deferred tenant inducement	(4,336)	(4,731)
	1,205,660	721,994
Net changes in non-cash working capital items		
Increase in accounts receivable	(2,145)	(16,900)
Decrease (increase) in prepaid expenses	(37,324)	5,037
Increase in accounts payable and accrued liabilities	119,620	26,961
Increase in deferred license revenue	63,149	345,650
	1,348,960	1,082,742
Investing activities		
Purchase of property and equipment	(279,890)	(215,712)
Repayment of capital lease	-	(4,500)
Expenditures on deferred examination development - net of recovery	-	8,903
Decrease in recoverable program development costs	1,757	2,658
	(278,133)	(208,651)
Increase in cash	1,070,827	874,091
Cash - Beginning of year	2,995,419	2,121,328
Cash - End of year	$ 4,066,246	$ 2,995,419
Supplementary information		
Interest received	$ 137,158	$ 69,862

ALBERTA INSURANCE COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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 were recovered from those jurisdictions.

Deferred Examination Development Costs

Costs which have been incurred by the Council for the development of Life License Qualification Program ("LLQP") examination questions have are 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.

ALBERTA INSURANCE COUNCIL

Note 2 (continued)

Property and Equipment and Amortization

Property and equipment is recorded at cost and is 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 $nil (2005 - $4,336) is recorded at amortized cost and was 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 $3,550,740 (2005 - $2,771,146) 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.

NOTE 4 DEFERRED PROGRAM AND EXAMINATION DEVELOPMENT COSTS

			2006	2005
	Cost	Accumulated amortization	Net	Net
Examination development	$ 37,111	$ 22,074	$ 15,037	$ 26,074

ALBERTA INSURANCE COUNCIL

NOTE 5 PROPERTY AND EQUIPMENT

			2006	2005
	Cost	Accumulated amortization	Net	Net
Leasehold improvements	$ 255,920	$ 76,396	$179,524	$ 73,652
Furniture and office equipment	192,111	108,446	83,665	64,042
Computer equipment	193,733	150,770	42,963	27,308
Computer software	488,049	394,104	93,945	133,886
Telephone equipment	43,205	3,337	39,868	1,183
	$1,173,018	$733,053	$ 439,965	$ 300,071

NOTE 6 OCCUPANCY AND PREMISES

The following amounts are included in occupancy and premises expenditures:

	2006	2005
Rent and parking	$ 242,730	$ 219,349
Furniture, equipment and equipment under operating leases	2,077	30,676
Repairs and maintenance	11,477	12,453
	$ 256,284	$ 262,478

NOTE 7 COUNCILS, BOARDS AND COMMITTEES

The following amounts are included in Councils, Boards and Committees expenditures:

	2006	2005
Councils	$ 131,015	$ 144,928
Appeal Boards	12,523	13,529
Accreditation Committee	37,319	24,160
Council Committees	9,426	11,471
	$ 190,283	$ 194,088

ALBERTA INSURANCE COUNCIL

NOTE 8 COMMUNICATIONS

The following amounts are included in communications expenditures:

	2006	2005
Telephone	$ 43,858	$ 38,415
Freight and postage	73,202	61,100
Publicity and promotion	20,235	16,297
	$ 137,295	$ 115,812

NOTE 9 PROFESSIONAL FEES

The following amounts are included in professional fees expenditures:

	2006	2005
Legal fees - excluding costs of special projects	$ 13,250	$ 8,614
Professional fees	118,880	96,687
	$ 132,130	$ 105,301

NOTE 10 OFFICE AND ADMINISTRATION

The following amounts are included in office and administration expenditures:

	2006	2005
Office expenses	$ 17,170	$ 20,145
Print and stationery	65,751	46,138
Training	10,604	37,733
Insurance	19,944	19,894
Bank charges	16,406	7,136
	$ 129,875	$ 131,046

ALBERTA INSURANCE COUNCIL

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITY

Commitments

The Council is committed to operating lease payments for business premises in accordance with existing lease agreements and contracted services, as follows:

2007	$ 279,725
2008	$ 211,764
2009	$ 211,372
2010	$ 211,040
2011	$ 206,016
Thereafter	$ 427,125

At year-end, the Council was committed to estimated leasehold improvement costs of $302,000 regarding its Calgary location. Under the terms of the Calgary lease, the lessor will provide leasehold inducements of $142,375 regarding leasehold improvement costs. Subsequent to year-end, the Edmonton location also received leasehold inducements of $84,042.

Contingent Liability

In November 2006, the Council secured new leased premises for their Calgary office, and was in the midst of renovation of the new location at year-end. The landlord of the old premises was notified of the Council's intention to terminate the lease at which time the Council was in year three of a five-year lease. Under the terms of the former lease agreement, the Council is contingently liable for penalty payments. Given current and projected downtown Calgary's leasing conditions, the Council is anticipating no significant penalty will arise as a result of the early termination of this lease.

NOTE 12 FINANCIAL INSTRUMENTS

The Council's financial instruments comprise cash, accounts receivable 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 licence and assessment fees, which are billed in advance. There are no unrecorded financial instruments.

NOTE 13 COMPARATIVE FIGURES

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, 2006

Per diem payments of Council Members

The following amounts are included in Council, Boards and Committee expenditures:

	2006 [b]		2005 [f]	
	#		#	
Councils [a]				
Chairs	9	$ 42,311	8	$ 49,767
Members	30	61,455	33	77,410
Total	39	$ 103,766	41	$ 127,177

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Accreditation Committee.

(b) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from Insurance licenses. This includes public members appointed by the Lieutenant Governor in Council, as well as Accreditation Committee members appointed by the Minster of Finance pursuant to the *Government Organization Act*.

Salaries and benefits

	FTE's	Salary [c]	Benefits [d]	2006 Total	FTE's [f]	2005 Total
	#				#	
Chief Executive Officer	1	$ 149,212	$ 32,405	$ 181,617	1	$ 193,523
Chief Operating Officer	1	139,560	34,823	174,383	1	181,197
Other staff [e]	19	1,139,937	203,519	1,343,457	20	1,265,442
Total	21	$ 1,428,709	$ 270,747	$ 1,699,457	22	$ 1,640,162

(c) Salary includes regular base pay, bonuses and overtime.

(d) 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 $21,947 (2005 – $31,923).

Employees of the Council are specifically excluded from enrolment in the Province of Alberta’s Public Service Plan and the Province of Alberta’s Management Employees Pension Plan. The Council employees are also not included in any of the Province of Alberta’s employee benefits plans.

(e) Average annual salary and benefits of other staff was $69,029 (2005 – $63,561).

(f) Comparative figures have been reclassified to conform with the current year presentation.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Financial Statements

December 31, 2006

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, 2006 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, 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
March 19, 2007

ALBERTA PENSIONS ADMINISTRATION CORPORATION

BALANCE SHEET

December 31, 2006

	2006	2005
	($ thousands)	
ASSETS		
Cash	$ 68	$ 70
Accounts receivable	6	8
Prepaid expenses	138	169
Due from pension plans	2,276	2,680
Property and equipment (Note 4)	4,612	6,956
	$ 7,100	$ 9,883
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable and accrued liabilities	$ 1,176	$ 1,031
Accrued salaries and benefits	941	1,015
Accrued vacation pay	354	406
Deferred lease inducement	17	35
Capital lease obligation (Note 5)	-	440
Deferred capital contributions (Note 3(b))	4,612	6,956
	7,100	9,883
Shareholder's equity		
Share capital (Note 6)	-	-
	$ 7,100	$ 9,883

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, 2006

	Budget 2006	Actual 2006	Actual 2005
	(Note 16)		
		($ thousands)	
Revenue (Note 7)	$ 26,727	$ 24,326	$ 24,598
Operating costs			
Salaries and benefits	17,245	15,649	14,969
Amortization	3,043	2,865	3,175
Other operating costs (Note 8)	2,675	2,682	2,167
Materials and supplies	2,262	2,113	1,809
Operating costs before Plan Specific costs	25,225	23,309	22,120
Plan Specific costs (Note 9)	1,502	1,017	2,478
Total operating costs	26,727	24,326	24,598
Net income	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Operating activities		
Net income	$ -	$ -
Items not affecting cash		
Amortization	2,865	3,175
Capital contributions recognized (Note 3(b))	(2,865)	(3,175)
	-	-
Changes in non-cash working capital (Note 10)	456	926
	456	926
Investing activities		
Acquisition of property and equipment	(521)	(1,467)
Financing activities		
Decrease in deferred lease inducement	(18)	(17)
Decrease in capital lease obligation	(440)	(893)
Capital contributions received	521	1,467
	63	557
Increase (decrease) in cash for the year	(2)	16
Cash at beginning of year	70	54
Cash at end of year	$ 68	$ 70

The accompanying notes are part of these financial statements.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 AUTHORITY

Alberta Pensions Administration Corporation (the Corporation) is incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The issued share of the Corporation is owned by the 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 (LAPP)
Public Service Pension Plan (PSPP)
Management Employees Pension Plan (MEPP)
Special Forces Pension Plan (SPFF)
Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)
Members of the Legislative Assembly Pension Plan (MLAPP)
Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP)
Supplementary Retirement Plan for Public Service Managers (MSRP)
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

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, 2007. 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.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Property and Equipment

Property and equipment are recorded at cost. 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. 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

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Note 3 (continued)

Property and equipment under construction, including software development projects, is not amortized until completion and implementation.

Prior to January 1, 2006, the threshold for capitalization was $5,000 per item, or $30,000 for like items, where the individual items have a useful life in excess of two years.

(b) 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

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	($ thousands)			
APEX business system	$ 7,383	$ 5,740	$ 1,643	$ 2,946
Computer equipment	2,435	2,099	336	1,106
Computer software	4,370	2,964	1,406	1,220
Leasehold improvements	1,596	758	838	1,157
Furniture and equipment	1,095	706	389	527
Telephone system	43	43	-	-
	$ 16,922	$ 12,310	$ 4,612	$ 6,956

NOTE 5 CAPITAL LEASE OBLIGATIONS

Capital lease obligation was fully paid in the year.

NOTE 6 SHARE CAPITAL

	2006	2005
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTE 7 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. This formula was amended on a prospective basis effective January 1, 2006 and will be reviewed on at least a triennial basis. Comparative figures have not been affected as 2005 was allocated based on the previously approved allocation formula.

	2006	2005
	($ thousands)	
Local Authorities Pension Plan, excluding Plan Specific costs (a)	$ 14,470	$ 13,322
Public Service Pension Plan	6,875	6,350
Management Employees Pension Plan	1,207	1,416
Special Forces Pension Plan	1,009	1,136
Public Service Management (Closed Membership) Pension Plan	260	339
Members of the Legislative Assembly Pension Plan	63	58
Provincial Judges and Masters Chambers (Registered)Pension Plan	96	57
Supplementary Retirement Plan for Public Service Managers	241	442
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	75	63
	24,296	23,183
Interest and other miscellaneous cost recoveries	30	51
Revenue from ongoing operations	24,326	23,234
Local Authorities Pension Plan Specific costs (a)	-	1,364
	$ 24,326	$ 24,598

(a) Effective January 1, 2006, Plan Specific costs (Note 9) formerly paid by the Corporation on behalf of LAPP are being charged directly to, and managed by, Alberta Local Authorities Pension Plan Corp. This change was made on a prospective basis, and comparative figures have not been affected. Total revenue from LAPP for 2005 was $14,686,000.

NOTE 8 OTHER OPERATING COSTS

Other operating costs consist of:

	2006	2005
	($ thousands)	
Contract services	$ 1,453	$ 965
Data processing and maintenance	981	933
Miscellaneous	248	269
	$ 2,682	$ 2,167

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:

	2006					2005
	Contract Services	Salaries and Benefits	Materials and Supplies	Board Remuneration	Total	Total
	($ thousands)					
Public Service Pension Plan	$ 196	$ 258	$ 61	$ -	$ 515	$ 557
Management Employee Pension Plan	129	-	42	35	206	250
Special Forces Pension Plan	146	-	54	19	219	278
Public Service Management (Closed Memberhsip) Pension Plan	24	-	-	-	24	16
Member of the Legislative Assembly Pension Plan	10	-	-	-	10	2
Provincial Judges and Masters in Chambers (Registered) Pension Plan	18	-	-	-	18	2
Management Supplementary Retirement Plan	25	-	-	-	25	8
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	-	-	-	-	-	1
Subtotal	548	258	157	54	1,017	1,114
Local Authorities Pension Plan (Note 7(a))	-	-	-	-	-	1,364
	$ 548	$ 258	$ 157	$ 54	$ 1,017	$ 2,478

NOTE 10 CHANGES IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital consist of the following:

	2006	2005
	($ thousands)	
Decrease (increase) in accounts receivable	$ 2	$ 98
Decrease (increase) in prepaid expenses	31	(66)
Decrease (increase) in due from pension plans	404	1,829
Increase (decrease) in accounts payable and accrued liabilities	145	(953)
Increase (decrease) in accrued salaries and benefits	(74)	218
Increase (decrease) in accrued vacation pay	(52)	(200)
	456	$ 926

NOTE 11 FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash, accounts receivable, due from/to pension plans, accounts payable and accrued liabilities, accrued salaries and benefits and accrued vacation pay. Due to their short term nature, the carrying value of these instruments approximates their fair value.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTE 12 RELATED PARTY TRANSACTIONS

The Corporation received the following services at amounts which approximate market from:

		2006	2005
		($ thousands)	
Service Alberta	Data processing and postage	$ 656	$ 637
Alberta Finance	Accounting and administrative	20	22
Alberta Infrastructure and Transportation	Parking rental	10	10
		$ 686	$ 669

The Corporation also provided services to the Public Sector Pension Plans and Supplementary Retirement Pension Plans as disclosed in Notes 7 and 9.

NOTE 13 SALARIES AND BENEFITS DISCLOSURE

	2006				2005
	Base Salary (a)	Other Cash Benefits (b)	Other Non-cash Benefits (c)	Total	Total
			($ thousands)		
Corporation Board Chair (d)	$ -	$ 29	$ 4	$ 33	$ 20
Corporation Board Members (d)	-	60	6	66	74
President and Chief Executive Officer (e)	144	39	37	220	222
Corporate Officers:					
Chief Strategist and Corporate Secretary	151	40	37	228	192
Chief Operating Officer	142	17	33	192	166
Chief Information Officer (f)	123	17	32	172	174
Chief Administrative Officer	131	34	33	198	169
Vice President, Human Resources (g)	10	-	3	13	-

(a) Base salary includes regular base pay and any retroactive adjustments to base pay.

(b) Other cash benefits include incentive pay, automobile allowance, 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 is classified as contract services and is paid in accordance with the fee structure approved by the Minister of Finance.

(e) The position was occupied during 2006 by three individuals, as follows:
- the current President and Chief Executive Officer (CEO) has occupied the position since May 1, 2006.
- the Chief Information Officer was acting CEO from February through April 2006 and the associated acting pay is included.
- the predecessor occupied the position for January and February 2006. This individual was provided an automobile, no dollar amount included in other non-cash benefits.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Note 13 (continued)

(f) The Chief Information Officer (CIO) was acting President and Chief Executive Officer (CEO) for three months during the year. Acting pay for that period has been included as CEO salary and benefits. Base salary and benefits for this period are included in CIO. The position was occupied for eleven months during 2005.

(g) The position was created on December 1, 2006.

NOTE 14 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 $1,175 for the year ended December 31, 2006 (2005: $1,076).

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).

NOTE 15 COMMITMENTS

The Corporation has entered into agreements with minimum annual commitments for office space and multi-year contracts as follows:

	Facility Lease	Multi-Year Contracts	Total Commitments
		($ thousands)	
2007	$ 679	$ 139	$ 818
2008	776	36	812
2009	517	-	517
	$ 1,972	$ 175	$ 2,147

NOTE 16 2006 BUDGET

The Corporation's 2006 budget was approved by the Board of Directors on November 16, 2005. This original budget was revised following the incorporation of Alberta Local Authorities Pension Plan Corp., and related transfer of costs (see Note 7(a)). The revised budget was approved on March 30, 2006.

NOTE 17 COMPARATIVE FIGURES

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

NOTE 18 APPROVAL OF FIANCAIL STATEMENTS

The financial statements were approved by the Corporation's Board of Directors.

ALBERTA SECURITIES COMMISSION

Financial Statements

March 31, 2007

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

I have audited the balance sheet of thc Alberta Securities Commission (ASC) as at March 31, 2007 and the statements of income and retained earnings and cash flows for thc year then ended. These financial statements are the responsibility of thc ASC'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 statements presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the ASC as at March 31, 2007 and the results of its operations and its cash flows for the year ended in accordance with Canadian generally accepted accounting principles.

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

Edmonton, Alberta
May 18, 2007

ALBERTA SECURITIES COMMISSION

BALANCE SHEET
As At March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Current		
Cash (Note 4)	$ 4,034	$ 2,542
Funds held for others (Note 9)	135	4
Accounts receivable	32	98
Prepaid expenses	74	112
	4,275	2,756
Non-current		
Restricted cash (Note 3)	576	895
Investments (Note 4)	32,146	23,316
Capital assets (Note 6)	3,275	1,913
Lease deposit and other	182	132
	36,179	26,256
Total assets	$ 40,454	$ 29,012
Liabilities and retained earnings		
Current		
Funds held for others (Note 9)	$ 135	$ 4
Accounts payable and accrued liabilities	2,710	1,612
Accrued vacation and benefit liabilities	468	635
Lease inducement (Note 7)	124	124
	3,437	2,375
Non-current		
Lease Inducement (Note 7)	370	494
Accrued benefit liability (Note 8)	2,464	2,070
Total liabilities	6,271	4,939
Retained earnings (Note 3)	34,183	24,073
Total liabilities and retained earnings	$ 40,454	$ 29,012

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, 2007

	2007		2006
	Budget	Actual	Actual
	(Note 12)		
Revenue		($ thousands)	
Fees (Note 10)	$ 18,487	$ 23,223	$ 19,285
Investment income (Note 5)	1,000	2,238	2,486
Settlement payments and cost recoveries (Note 10)	-	7,790	50
Conference fees	-	26	85
Administrative penalties revenue (Note 3)	300	121	449
Total revenue	19,787	33,398	22,355
Expense			
Salaries and benefits	15,350	15,329	12,821
Administration	2,374	2,668	1,840
Professional services	2,162	2,359	1,689
Premises	1,726	1,771	1,435
Amortization	676	695	622
Investor education (Note 3)	600	466	468
Special investigations (Note 13)	-	-	1,268
Total expense	22,888	23,288	20,143
Budget contingency	2,289		
Net income (loss)	$ (5,390)	10,110	2,212
Opening retained earnings		24,073	21,861
Closing retained earnings (Note 3)		$ 34,183	$ 24,073

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

ALBERTA SECURITIES COMMISSION

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2007

	2007	2006
	($ thousands)	
Cash flows from operating activities		
Fees and other	$ 23,312	$ 19,383
Settlement payments and cost recoveries	7,790	50
Payments to and on behalf of employees	(14,521)	(12,356)
Payments to suppliers for goods and services	(7,030)	(5,476)
Payments for special investigations (Note 13)	(17)	(1,476)
Investment income	2,238	2,486
Cash advanced to MICA project (Note 9)	-	(8)
Administrative penalties	59	449
Cash from operating activities	11,831	3,052
Cash flows from capital activities		
Lease inducement received	-	389
Proceeds on disposal of capital assets	3	3
Cash used to acquire capital assets (1)	(1,831)	(495)
Cash used in capital activities	(1,828)	(103)
Cash flows from investing activities		
Decrease (increase) in restricted cash	319	(66)
Cash used for investments	(8,830)	(3,526)
Cash used in investing activities	(8,511)	(3,592)
Increase (decrease) in cash	1,492	(643)
Opening cash	2,542	3,185
Closing cash	$ 4,034	$ 2,542
Supplemental cash flow information		
(1) Additions to capital assets	$ (2,060)	$ (414)
Increases (decreases) accrued liabilities for capital assets	229	(81)
	$ (1,831)	$ (495)

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

ALBERTA SECURITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

($ thousands)

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission ("ASC"), an industry-funded provincial corporation operating under the *Alberta Securities Act*, is the regulatory agency responsible for administering the province's securities laws.

The ASC's investments are independently managed by the Alberta Investment Manager of the Province of Alberta. The ASC does not participate in capital market investment decisions or transactions.

The ASC, 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 for the public sector.

The Alberta Investment Manager and Minister of Finance administer and report all ASC investments and cash balances using the accounting policies outlined in (a), (b) and (c).

(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 by the Alberta Minister of Finance 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.

ALBERTA SECURITIES COMMISSION

Note 2 (continued)

(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 managed and held by the Alberta Investment Manager in 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 ASC's investment in the Canadian Dollar Public Bond Pool and Domestic Passive Equity Pooled Fund (see Note 4). The fair value of derivative contracts is determined at the reporting date.

(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.

(f) Employee future benefits

The ASC 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 ASC 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 ASC maintains a Supplemental Pension Plan (the "Plan") for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected benefit method pro-rated

ALBERTA SECURITIES COMMISSION

Note 2 (continued)

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. The average remaining service period of active employees of the Plan is six years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the ASC. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act*. 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) Measurement Liability

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.

(i) Restricted cash

The *Alberta Securities Act* restricts the use of revenues received by the ASC from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of persons of the securities market operation.

NOTE 3 RESTRICTED CASH AND RETAINED EARNINGS

Retained earnings include accumulated net penalty revenue of $576 ($895 in 2006). This amount is represented by restricted cash as described in Note 2(i).

Changes in restricted cash include:

	2007	2006
	($ thousands)	
Restricted cash increase (decrease)		
Administrative penalties	$ 564	$ 620
Less: uncollectible amounts	(480)	(195)
Net realizable value	84	425
Interest income and other	37	24
	121	449
Plus: Education seminar fees	26	85
Less: Eligible education expenses	(466)	(468)
Restricted cash increase (decrease)	$ (319)	$ 66

ALBERTA SECURITIES COMMISSION

NOTE 4 CASH AND INVESTMENTS

(a) Summary

	2007			2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	($ thousands)			($ thousands)		
Cash						
Deposit in the CCITF	$ 4,034	$ 4,034		$ 2,542	$ 2,542	
Investments						
Deposit in the CCITF	$ 65	$ 65	0.2	$ 60	$ 60	0.3
Fixed-income securities	24,340	24,092	74.5	17,697	17,441	74.0
Canadian equities	7,741	8,168	25.3	5,559	6,060	25.7
	$32,146	$32,325	100.0	$23,316	$23,561	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, 2007, securities held by the CCITF have an average effective rnarket yield of 4.36% per annum (2006: 3.96% per annum).

The ASC's investments are held in pooled investment funds established and administered by the Ministry of 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.

Included in the ASC's pooled investment funds are derivative financial contracts with a notional amount of $92,045 and a negative fair value of $33 (Notional amount $14,004 and fair value $174 in 2006).

Fixed income securities held at March 31, 2007 have an average effective market yield of 4.5% per annum (4.7% per annum in 2006), with maturities ranging from less than one year to over 20 years. The fixed income pool includes a mix of high-quality government and corporate (public and private) fixed income securities and is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk

(b) Investment risk management

Income and financial returns of the ASC are exposed to credit, market and interest rate risk.

In order to earn an optimal financial return at an acceptable level of risk, management of the ASC has established an investment policy, which is reviewed annually. Risk is reduced through asset class allocation targets of 75% bonds and 25% equities with a small value of residual cash, diversification within each asset class, and quality and duration constraints on fixed-income instruments.

ALBERTA SECURITIES COMMISSION

NOTE 5 NET INVESTMENT INCOME

	2007	2006
	($ thousands)	
Net realized gain on investments including derivative income	$ 744	$ 1,448
Interest	1,390	983
Dividends	108	60
Other	(4)	(5)
	$ 2,238	$ 2,486

The ASC's investments earned 7.4% for the year ended March 31, 2007 (11.3% in 2006), based on market values.

NOTE 6 CAPITAL ASSETS

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		($ thousands)		
Computer equipment and software	$ 2,701	$ 1,746	$ 955	$ 487
Furniture and equipment	839	365	474	241
Leasehold improvements	3,424	1,578	1,846	1,185
	$ 6,964	$ 3,689	$ 3,275	$ 1,913

NOTE 7 LEASE INDUCEMENTS

Lease Term	Current Inducement	Future Inducement
	($ thousands)	
8 years, ending March 2011	$ 124	$ 370

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liablity includes:

	2007	2006
	($ thousands)	
Retirement Plan	$ 204	$ 198
Supplemental Pension Plan	2,327	1,923
Less: current portion	$ (67)	$ (51)
	$ 2,464	$ 2,070

ALBERTA SECURITIES COMMISSION

Note 8 (continued)

The following pension expense for the plans is recorded in the Statement of Income and Retained Earnings under salaries and benefits.

	2007	2006
	($ thousands)	
Public Service Pension Plan	$ 379	$ 325
Registered Retirement Savings Plan	330	274
Retirement Plan	29	29
Supplemental Pension Plan	436	426
	$ 1,174	$ 1,054

(a) Public Service Pension Plan

The ASC participates in the Public Service Pension Plan (the "PSPP"). At December 31, 2006 the PSPP reported a surplus of $153,024 and in 2005 a deficiency of $187,704.

(b) Registered Retirement Savings Plan

The ASC makes contributions on behalf of employees who do not participate in the PSPP to employee Registered Retirement Savings Plans.

(c) Retirement Plan

The retirement plan is not pre-funded and the benefits are paid to August 2017 as they come due ($22 in 2007, $21 in 2006) from the assets of the ASC.

(d) Supplemental Pension Plan

The ASC has a Supplemental Pension Plan (the "Plan") for certain designated executives of the ASC. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Plan provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit ($111 effective January 1, 2007, and $105 effective January 1, 2006) imposed by the *Income Tax Act* 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 payabte 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 ASC.

ALBERTA SECURITIES COMMISSION

Note 8 (continued)

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 I, 2009. The results of the actuarial valuation and management's cost estimates as they apply to the Plan are summarized below:

	2007	2006
	($ thousands)	
Balance Sheet at March 31		
Accrued benefit and unfunded obligation	$ 2,511	$ 2,152
Unamortized transitional obligation	(120)	(151)
Unamortized actuarial loss	(64)	(78)
Accrued benefit liability	$ 2,327	$ 1,923
Accrued Benefit Obligation		
Accrued benefit obligation at beginning of the year	$ 2,152	$ 1,895
Service cost	268	192
Interest cost	126	120
Assumption changes	-	85
Net Actuarial gain plus benefits paid of $33 ($26 in 2006)	(35)	(140)
Accrued benefit obligation at end of the year	$ 2,511	$ 2,152

	2007	2006
Pension Expense	($ thousands)	
The pension expense for the Plan is as follows:		
Service cost	$ 268	$ 192
Interest cost	126	120
Amortization of transitional obligation	26	26
Recognized actuarial losses during year	16	88
Pension Expense	$ 436	$ 426

Actuarial assumptions for actuarial valuation of the Plan

The assumptions used in the 2006 actuarial valuation of the Plan and three year projections are summarized below. The discount rate was established in accordance with the yield in 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.

	2007	2006
Discount rate, year end obligations	5.4%	5.4%
Discount rate, net benefit cost prior year	5.8%	5.8%
Rate of inflation	2.50%	2.50%
Salary increases	4.00%	4.00%
Remaining service life	6 years	6 years

ALBERTA SECURITIES COMMISSION

NOTE 9 FUNDS HELD FOR OTHERS

The ASC holds, in a separate bank account, $135 ($4 in 2006) in cash for participants in the Market Integrity Computer Analysis ("MICA") system upgrade project. The ASC has recorded a total project expense of $2 ($14 in 2006). Funds are disbursed as payments are made for approved expenditures. Expenditures, if any, in excess of the amounts held for others and the ASC's contribution, require further participant approval and contribution. The next phase of the MICA project is planned for 2008 and will require further funding, estimated at $30 per participant.

NOTE 10 FEES AND SETTLEMENT COST RECOVERIES

	2007	2006
	($ thousands)	
Distribution of securities	$ 11,345	$ 9,372
Registrations	7,522	6,497
Annual financial statements	4,025	3,125
Orders (Applications)	331	291
Total fees	$ 23,223	$ 19,285
Settlement payments and cost recoveries	$ 7,981	$ 82
Less: uncollectible amounts net of recoveries	(191)	(32)
Net realizable value	$ 7,790	$ 50

NOTE 11 COMMITMENTS AND CONTINGENCIES

Details of commitments to organizations outside the ASC 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 lease of premises to March 31, 2011 and rental of office equipment to March 31, 2010, amounted to $8,296 ($8,278 in 2006). These commitments become expenses of the ASC when the terms of the contracts are met.

2007-08	$ 2,055
2008-09	2,046
2009-10	2,078
2010-11	2,117
Thereafter	-
Total	$ 8,296

ALBERTA SECURITIES COMMISSION

Note 10 (continued)

Canadian Securities Administrators (CSA) - The ASC 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 hamonization of rules, regulations and policies across Canada.

National systems operations agreements - CDS INC. (CDS) operates SEDAR (electronic filing and payment), NRD (national registration database) and SEDI (insider trading) systems on behalf of the CSA under various operating agreements. The ASC, as one of the agreement signatories, commits to pay CDS up to 11.7% of any shortfall from approved system operating costs that exceed revenues. Alternatively, CDS must pay to CSA revenues in excess of system operating costs ("surplus"). The surplus is not divisible; the CSA owns it as a group. CDS payments received from system operating surpluses and interest earned totals $16,175 at March 31, 2007 ($8,865 in 2006). This amount is held in trust by the Ontario Securities Commission. The principal CSA administrators, including the ASC, have agreed that surplus amounts can only be used to offset any shortfall in revenues, develop or enhance the systems and reduce fees charged to users.

(b) Legal actions

The ASC is involved in one legal proceeding arising from its operations. Management considers the likelihood of liability under this proceeding not to be determinable and, accordingly, an estimate of any contingent loss cannot be made.

NOTE 12 BUDGET

The ASC's budget was approved on January 18,2006 and includes a contingency expense provision of $2,289 less a vacancy reserve of $155. 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 ASC. The ASC approves expenditures that are 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 projects and related costs were completed in 2006.

NOTE 14 RELATED PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown-corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $65 ($71 in 2006) in administration expense.

NOTE 15 COMPARATIVES

Certain comparative figures have been reclassitied to conform to their 2007 presentation.

ALBERTA SECURITIES COMMISSION

SCHEDULE TO THE FINANCIAL STATEMENTS

SCHEDULE OF SALARIES & BENEFITS

Schedule A

For the Year Ended March 31, 2007

	Base Salary (1)	Cash Benefits (2)	Non-cash Benefits (3)	2007 Total	2006 Total
			($ thousands)		
Chair, Securities Commission (4)	$ 443	$ 75	$ 110	$ 628	$ 601
Vice Chair, Securities Commission (4)	230	57	81	368	321
Vice Chair, Securities Commission (4)	230	35	57	322	299
Members (Independent) (4)	782	-	-	782	467
Executives					
Executive Director	270	72	86	428	371
Director, Market Regulation (5)	161	25	29	215	237
Director, Corporate Finance (6)	210	35	45	290	134
Director, Enforcement	195	28	49	272	252
Director, Corporate Resources (7)	155	28	28	211	226
Chief Accountant	195	49	25	269	240
General Counsel	195	30	41	266	251
Controller (8)	140	36	30	206	106
Director Communications (9)	95	17	16	128	-

(1) Base salary includes regular base pay and Member compensation.

(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, current and prior service cost for the unfunded supplemental pension plan for designated executives as described in note 8(d) of the financial statements and summarized in the accompanying narrative and tables, pension, registered retirement savings plan contributions, health and dental plans, group life insurance, employee and family assistance plan, disability plans, profesional memberships and tuition.

(4) The Chair (three incumbents in 2006, one in 2007) and Vice Chairs are full time Commission Members. Members compensation includes fees paid for governance responsibilities of $406,000($358,000 in 2006) and hearing and application panel participation of $375,748 ($108,735 in 2006). Member compensation included $140,000 in 2006 of special investigation costs.

(5) The Director, Market Regulation was appointed in January 2006 and replaced the Director, Legal/Policy following reorganization. Prior year amounts include a payment in lieu vacation and Acting Director salary.

(6) The Director, Corporate Finance was appointed in March 2006 and replaced the Director, Capital Markets following reorganization. Prior year amounts include a payment in lieu of vacation and three months of base salary.

(7) The Director, Corporate Resources replaced the Director, Administrative Services in September 2005. Prior year amounts include a payment in lieu of vacation and Acting Director salary.

(8) The Controller was appointed to the Senior Management group effective September 1, 2005.

(9) The Director, Communications was appointed in June 2006 and, at that time, the position was added to the Senior Management group.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF SALARIES AND BENEFITS

Schedule A (cont'd)

Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan (the Plan") as described in note 8(d) of the ASC financial statements, executive officers may receive supplemental retirement payments. Plan costs as detailed below, are not cash payments in the period, but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post employment period. The Plan provides future pension benefits to participants based on years of service and earnings as described in note 8(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of expected inflation and salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

	2007			2006
	Current Service Cost	Prior Service and Other Costs	Total	Total
	($ thousands)			
Chair, Securities Commission	$ 82	$ 8	$ 90	$ 55
Vice Chair, Securities Commission	30	29	59	58
Vice Chair, Securities Commission	28	11	39	34
Executives				
Executive Director	35	29	64	66
Director, Market Regulation	10	1	11	2
Director, Corporate Finance	22	1	23	2
Director, Enforcement	22	6	28	26
Director, Corporate Resources	9	1	10	6
Chief Accountant (Note 1)				
General Counsel	19	2	21	9
Controller (9)	10	1	11	6
Director Communication (Note 2)				

Note 1: The Chief Accountant is not a plan participant.

Note 2: The Director became a Plan participant in June 2006, subsequent to the actuarial valuation. Management estimates no expense in fiscal 2007 because the base salary is less than the Plan threshold defined in note 8(d).

ALBERTA SECURITIES COMMISSION

SCHEDULE OF SALARIES AND BENEFITS

Schedule A (cont'd)

The accrued obligation for each executive under the Plan is outlined in the following table:

	Accrued obligation April 1, 2006	Changes in accrued obligation	Accrued obligation March 31, 2007
		($ thousands)	
Chair, Securities Commission	$ 55	$ 90	$ 145
Vice Chair, Securities Commission	304	59	363
Vice Chair, Securities Commission	85	39	124
Executives			
Executive Director	334	64	398
Director, Market Regulation	1	11	12
Director, Corporate Finance	2	23	25
Director, Enforcement	55	28	83
Director, Corporate Resources	6	10	16
Chief Accountant (Note 1)			
General Counsel	11	21	32
Controller (9)	6	11	17
Director Communications (Note 2)			

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

December 31, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholder of Alberta Local Authorities Pension Plan Corporation

I have audited the balance sheet of the Alberta Local Authorities Pension Plan Corp. (the Corporation) as at December 31, 2006 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, 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
March 2, 2007

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

BALANCE SHEET

As at December 31, 2006

		2006 (Note 10)
		($ thousands)
ASSETS		
Cash	$	69
Accounts receivable		22
	$	91
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accrued liabilities	$	51
Deferred revenue		40
		91
Shareholder's Equity		
Share capital (Note 4)		-
	$	91

The accompanying notes are part of these financial statements.

Approved by the Board:

John Vanderkaay
Chairman of the Board

Richard Martin
Audit Committee Chairman

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

STATEMENT OF INCOME

For the Year Ended December 31, 2006

	Budget 2006 (Note 11)	Actual 2006 (Note 10)
	($ thousands)	
Revenue		
Service revenue (Note 5)	$ 2,391	$ 2,062
Miscellaneous revenue	-	6
Total revenue	2,391	2,068
Operating costs		
Salaries and benefits	902	877
Professional fees	350	308
Communication expenses	463	282
Board costs	328	260
Actuarial services	180	192
General and administrative	168	149
Total operating costs	2,391	2,068
Net income for the year	$ -	$ -

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006

	2006 (Note 10)
	($ thousands)
Operating activities	
Net income	$ -
Change in non-cash working capital	
Increase in accounts receivable	$ (22)
Increase in accrued liabilities	51
Increase in deferred revenue	40
Increase in cash for the year	69
Cash at beginning of year	-
Cash at end of year	$ 69

The accompanying notes are part of these financial statements.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 AUTHORITY

Alberta Local Authorities Pension Plan Corp. (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000 and commenced operations on January 1,2006. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

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 (the Act) and the *Financial Administration Act*, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

NOTE 3 ACCOUNTING POLICIES

All revenues are reported on the accrual basis of accounting. Revenue for future expenses received in advance is recorded as deferred revenue.

NOTE 4 SHARE CAPITAL

	2006 (Note 10)
Authorized	
Unlimited number of common shares	
Unlimited number of perferred shares	
Issued	
1 common share (Note 1)	$ 1

NOTE 5 SERVICE REVENUE

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

NOTE 6 FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash, accounts receivable, and accrued liabilities. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

NOTE 7 COMMITMENTS

The Corporation has entered into agreements with minimum annual commitments for office space and automobile parking space as follows:

	($ thousands)
2007	$ 100
2008	108
2009	91
	$ 299

NOTE 8 SALARIES AND BENEFITS DISCLOSURE

	2006 (Note 10)			
	Base Salary [(a)]	Other Cash Benefits [(b)]	Other Non-cash Benefits [(c)]	Total
	($ thousands)			
Corporation Board Chair [(d)]	$ -	$ 22	$ -	$ 22
Corporation Board [(d)] Members (excluding Chair)	-	103	-	103
President & Chief Executive Officer	182	8	35	225
Vice Presidents:				
Investments	170	-	32	202
Policy and Legal	140	-	27	167

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

(c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

(d) Remuneration paid for the services of the Chair and 13 board members is classified under Board Meeting Fees and is paid in accordance with the fee structure approved by the Minister of Finance.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

NOTE 9 DEFINED BENEFIT PLANS

The Corporation also participates in the multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the mult-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $97 for the year ended December 31, 2006.

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,904 (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 reported a surplus of $10,018 (2004 - $9,404).

NOTE 10 COMPARATIVE FIGURES

As the Corporation commenced operations on January 1,2006, there are no corrlparative figures.

NOTE 11 APPROVAL OF 2006 BUDGET

The 2006 budget was approved by the LAPP Board of Trustees on December 16, 2005.

NOTE 12 FINANCIAL STATEMENT APPROVAL

The financial statements were approved by the Corporation's Board of Directors.

ALBERTA TREASURY BRANCHES

Consolidated Financial Statements

For the Year ended March 31, 2007

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Alberta Treasury Branches as at March 31, 2007, 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 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 Alberta Treasury Branches as at March 31, 2007, 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]

Edmonton, Alberta — Fred J. Dunn, FCA

May 17, 2007 — Auditor General

ALBERTA TREASURY BRANCHES

CONSOLIDATED BALANCE SHEET

As At March 31, 2007

	2007	2006
	($ thousands)	
Assets		
Cash resources (Note 4)		
Cash	$ 78,117	$ 77,454
Interest-bearing deposits with financial institutions	1,017,497	976,671
	1,095,614	1,054,125
Securities (Note 5)	1,684,821	1,381,444
Loans (Notes 6 and 7)		
Residential mortgage	6,965,985	6,378,725
Personal	3,101,429	2,483,980
Credit card	368,329	319,591
Business	6,712,420	5,825,602
Allowance for credit losses	(153,834)	(161,204)
	16,994,329	14,846,694
Other		
Premises and equipment (Note 8)	177,561	134,479
Other assets (Note 9)	342,393	231,073
	519,954	365,552
	$ 20,294,718	$ 17,647,815
Liabilities and Equity		
Deposits (Note 10)		
Personal	$ 9,156,823	$ 8,475,619
Business and other	9,096,015	7,394,689
	18,252,838	15,870,308
Other Liabilities (Note 11)	346,255	356,933
Subordinated Debentures (Note 12)	72,242	71,579
Equity	1,623,383	1,348,995
	$ 20,294,718	$ 17,647,815

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

Approved by the Board:

Robert Splane
Chairman of the Board

Brian McCook
Chairman of the Audit Committee

ALBERTA TREASURY BRANCHES

CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN EQUITY

For the Years Ended March 31, 2007

	2007	2006	2005
		($ thousands)	
Interest Income			
Loans	$ 960,074	$ 748,741	$ 657,838
Securities	71,593	35,630	20,188
Deposits with financial institutions	46,615	30,298	21,857
	1,078,282	814,669	699,883
Interest Expense			
Deposits	503,143	348,994	297,791
Subordinated debentures	3,334	3,424	3,346
	506,477	352,418	301,137
Net Interest Income	571,805	462,251	398,746
Other income			
Service charges	68,241	64,275	60,227
Credit fees	29,738	30,068	29,525
Investor services	28,526	17,994	8,632
Card fees	27,919	23,649	18,599
Insurance	10,789	10,150	11,468
Foreign exchange	8,625	7,451	6,689
Sundry	5,823	2,034	4,168
	179,661	155,621	139,308
Total Operating Revenues	751,466	617,872	538,054
(Recovery of) Provision for credit losses (Note 7)	(5,211)	688	(14,594)
Non-interest Expenses			
Human resources (Notes 13 and 16)	258,192	221,270	190,876
Data processing	60,176	53,170	46,535
Premises and occupancy, including amortization	43,078	37,136	35,894
Professional and consulting costs	26,816	22,350	13,627
Equipment and software, including amortization	20,275	19,411	18,179
Marketing and supplies	19,432	17,948	15,156
Other	17,116	10,706	10,749
Communication	14,793	14,117	12,380
Deposit guarantee fee	14,156	15,236	15,784
ATB agencies	8,255	7,119	6,155
	482,289	418,463	365,335
Net Income	274,388	198,721	187,313
Equity at beginning of year	1,348,995	1,150,274	962,961
Equity at End of Year	$ 1,623,383	$ 1,348,995	$ 1,150,274

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, 2007

	2007	2006	2005
		($ thousands)	
Cash Flows from Operating Activities			
Net income	$ 274,388	$ 198,721	$ 187,313
Adjustments to determine net cash flows:			
(Recovery of) provision for credit losses	(5,211)	688	(14,594)
Amortization	29,218	27,886	25,862
Net changes in accrued interest receivable and payable	2,217	(2,620)	(10,263)
Other items, net	(124,215)	50,487	(5,321)
Net cash provided by operating activities	176,397	275,162	182,997
Cash Flows from Financing Activities			
Net change in deposits	2,382,530	2,030,276	804,912
Issuance of subordinated debentures	13,401	15,785	27,822
Repayment of subordinated debentures	(12,738)	(9,925)	(7,519)
Net cash provided by financing activities	2,383,193	2,036,136	825,215
Cash Flows from Investing Activities			
Net change in interest-bearing deposits with financial institutions	(40,826)	(49,427)	29,483
Purchase of investment securities	(19,156,941)	(11,008,614)	(7,910,221)
Proceeds from investment securities	18,853,564	10,559,681	7,832,707
Net change in loans	(2,142,424)	(1,709,465)	(992,270)
Net purchases of premises and equipment	(72,300)	(52,298)	(42,913)
Net cash used in investing activities	(2,558,927)	(2,260,123)	(1,083,214)
Net Increase (Decrease) in Cash and Cash Equivalents	663	51,175	(75,002)
Cash and cash equivalents at beginning of year	77,454	26,279	101,281
Cash and cash equivalents at end of year	$ 78,117	$ 77,454	$ 26,279
Supplementary cash flow information:			
Amount of interest paid during the year	$ 483,563	$ 355,715	$ 307,942

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, 2007

($ 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. Its 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, 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;
- ATB Securities Inc.: incorporated February 6, 2003; and
- ATB Insurance Advisors Inc.: incorporated July 21, 2006.

ALBERTA TREASURY BRANCHES

Note 2 (continued)

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 foreign exchange in the Consolidated Statement of Income.

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

In the current year, ATB has not adopted any new accounting pronouncements issued by Canadian standard-setters as none were relevant to the accounts for the year ended March 31, 2007. During the year, ATB changed an element of its accounting policy for employee future benefits (refer to Note 13 for details).

NOTE 4 CASH RESOURCES

Cash consists of cash on hand, bank notes, coin, and non-interest-bearing deposits with the Bank of Canada and other financial institutions, all of which are recorded at cost. Interest-bearing deposits are recorded at cost and interest income is recorded on an accrual basis.

Amounts receivable from and payable to other financial institutions related to cheques and other items in transit via the clearing process are recorded at cost as other assets (see Note 9) and other liabilities (see Note 11).

The Investor Services subsidiaries held restricted cash balances (clients' cash held in trust) amounting to $12,769 as at March 31, 2007 (2006: $11,979).

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. ATB restricts its investments to those issued by the federal and provincial government and investment grade banks and corporate paper.

Interest income and any amortization of premiums and discounts are recorded in interest income - securities 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 are considered to be other than temporary, are also included in interest income - securities in the period of disposal or impairment.

ALBERTA TREASURY BRANCHES

Note 5 (continued)

The carrying value of securities, by remaining term to maturity, is as follows:

	2007			2006
	Less than 1 year	From 1-5 years	Total Carrying Value	Total Carrying Value
	($ thousands)			
Issued or guaranteed by the Canadian federal government	$ 110,705	$ -	$ 110,705	$ 12,594
Corporate debt	1,464,126	109,990	1,574,116	1,368,850
	$ 1,574,831	$ 109,990	$ 1,684,821	$ 1,381,444

The total carrying value of corporate debt securities in the preceding schedule includes securities denominated in US funds totalling $29,414 as at March 31, 2007 (2006: $17,994).

As described in Note 15, ATB has pledged certain securities as at March 31, 2007, having total carrying value of $313,300 (2006: $198,340).

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. Allowances are generally not recognized in respect of insured loans. 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 have been recovered, and allowances for credit losses have been reversed.

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. The value of such assets as at March 31, 2007 (and March 31, 2006) is insignificant.

ALBERTA TREASURY BRANCHES

Note 6 (continued)

Loan Fees and Costs

Loan fees in excess of a threshold are deferred and recognized as net interest income (2006: other income) in the Consolidated Statement of Income over the term of the loan. Loans not deferred are presented as a component of other income. The unrecognized portion of loan fees is netted against loans in the Consolidated Balance Sheet. Loan origination costs are expensed as incurred within non-interest expenses in the Consolidated Statement of Income.

Loans consist of the following:

	2007				2006
	Gross Loans	Specific Allowances	General Allowances	Total Carrying Value	Total Carrying Value
			($ thousands)		
Residential mortgage	$ 6,965,985	$ 528	$ 9,442	$ 6,956,015	$ 6,374,710
Personal	3,101,429	1,511	22,379	3,077,539	2,441,699
Credit card	368,329	-	10,376	357,953	311,064
Agricultural	1,302,064	3,120	13,789	1,285,155	1,295,767
Independent business	2,150,629	6,472	39,154	2,105,003	1,913,056
Commercial	3,259,727	376	46,687	3,212,664	2,510,398
	$ 17,148,163	$ 12,007	$ 141,827	$ 16,994,329	$ 14,846,694

The total net carrying value of loans above includes residential mortgages insured by Canadian Mortgage and Housing Corporation totalling $3,320,885 as at March 31, 2007 (2006: $3,131,749), and other insured loans totalling $101,615 (2006: $117,959).

The total net carrying value of loans above includes loans denominated in US funds totalling $133,562 as at March 31, 2007 (2006: $152,139).

Impaired loans (included in the preceding schedule) consist of the following:

	2007			2006
	Gross Impaired Loans	Specific Allowance	Net carrying value	Net carrying value
		($ thousands)		
Residential mortgage	$ 12,714	$ 528	$ 12,186	$ 18,814
Personal	5,471	1,511	3,960	4,716
Agricultural	15,986	3,120	12,866	13,493
Independent business	10,409	6,472	3,937	8,102
Commercial	2,155	376	1,779	1,063
	$ 46,735	$ 12,007	$ 34,728	$ 46,188

ALBERTA TREASURY BRANCHES

Note 6 (continued)

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).

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, 2007, no single industry segment represents more than 25.65% of total gross business loans and no single borrower represents more than 0.45% of the total gross loan portfolio (2006: 21.65% and 0.37%, 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 we expect to recover on an impaired loan is reflected in the provision for credit losses in the Consolidated Statement of Income.

ALBERTA TREASURY BRANCHES

Note 7 (continued)

General Allowance

A general loan loss allowance ("GLLA") 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.

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 installment loans, residential mortgages, and personal credit cards, adjusted for expected utilization), 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 judgment 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 2005 balance at the beginning of the year for the general allowance for credit losses 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 was 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, and there have been no other special general allowances established since.

ALBERTA TREASURY BRANCHES

Note 7 (continued)

The continuity of the allowances for credit losses is as follows:

	Specific			General			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
					($ thousands)				
Balance at beginning of year	$ 19,348	$ 32,147	$ 39,935	$ 145,099	$ 140,829	$ 157,719	$ 164,447	$ 172,976	$ 197,654
Write-offs	(7,262)	(14,584)	(16,213)	-	-	-	(7,262)	(14,584)	(16,213)
Recoveries	5,205	5,367	6,129	-	-	-	5,205	5,367	6,129
(Recovery of) provision credit losses, excluding impact of new GLLA methodology	(1,939)	(3,582)	2,296	21,057	4,270	(16,890)	19,118	688	(14,594)
Impact of new GLLA methodology [(1)]	-	-	-	(24,329) [(1)]	-	-	(24,329) [(1)]	-	-
Balance at end of year	15,352	19,348	32,147	141,827	145,099	140,829	157,179	164,447	172,976
Less: Allowance for cost of credit recovery included in other liabilities	3,345	3,243	4,782	-	-	-	3,345	3,243	4,782
Allowance for loan losses	$ 12,007	$ 16,105	$ 27,365	$ 141,827	$ 145,099	$ 140,829	$ 153,834	$ 161,204	$ 168,194

(1) During the second quarter, ATB implemented a refined methodology for establishing the level of its provision for general loan losses. This represents a change in estimate that resulted in a one-time recovery of $24.3 million and was accounted for prospectively.

NOTE 8 PREMISES AND EQUIPMENT

Premises and equipment are carried at cost less accumulated amortization except for land, which is carried at cost. Buildings, 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:

• Buildings	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

	2007			2006
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
		($ thousands)		
Land	$ 7,310	$ -	$ 7,310	$ 7,437
Buildings	69,826	55,359	14,467	16,277
Computer equipment and software	168,064	84,266	83,798	63,922
Other equipment	40,236	28,350	11,886	10,848
Leasehold improvements	119,639	59,539	60,100	35,995
	$ 405,075	$ 227,514	$ 177,561	$ 134,479

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2007, was $29,218 (2006: $27,886; 2005: $25,862).

ALBERTA TREASURY BRANCHES

Note 8 (continued)

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, 2007 (2006: Nil; 2005: $4,525). These amounts are recorded in premises and occupancy, including amortization and equipment and software, including amortization in the Consolidated Statement of Income.

NOTE 9 OTHER ASSETS

Other assets are comprised as follows:

	2007	2006
	($ thousands)	
Accrued interest receivable	$ 146,292	$ 125,595
Cheques and other items in transit	127,200	64,000
Accrued pension benefit asset (see Note 13)	20,164	650
Prepaid expenses and other receivables	17,509	10,975
Premiums paid on derivative instruments	17,295	21,310
Fair value adjustment of derivative instruments ineligible for hedge accounting	9,090	3,929
Other	4,843	4,614
	$ 342,393	$ 231,073

NOTE 10 DEPOSITS

Depost balances are comprised as follows:

			Payable on a Fixed Date					2007	2006
	Payable on Demand	Payable after Notice	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total	Total
Personal	$ 1,567,492	$ 1,753,260	$ 2,896,386	$ 1,439,493	$ 1,111,557	$ 233,626	$ 155,009	$ 9,156,823	$ 8,475,619
Business	3,576,237	830,779	2,770,235	118,427	102,904	15,865	15,589	7,430,036	6,103,312
Financial institutions	-	-	871,067	-	-	-	794,912	1,665,979	1,291,377
	$ 5,143,729	$ 2,584,039	$ 6,537,688	$ 1,557,920	$ 1,214,461	$ 249,491	$ 965,510	$ 18,252,838	$ 15,870,308

Total deposits presented above include $229,840 (2006: $221,879) denominated in US funds.

As at March 31, 2007, deposits by various departments and agencies of the government of the Province of Alberta included in the preceding schedule total $2,262 (2006: $3,577) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $516 (2006: $1,315).

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, 2007, an expense of $14,156 (2006: $15,236) was recognized in the Consolidated Statement of Income, representing the estimated fee of $15,989 (2006: $15,236) for the fiscal year, reduced by $1,833 (2006: Nil) in respect of an adjustment to prior year fees, which was agreed subsequent to the fiscal year end.

ALBERTA TREASURY BRANCHES

NOTE 11 OTHER LIABILITIES

Other liabilities are comprised as follows:

	2007	2006
	($ thousands)	
Accrued interest payable	$ 156,675	$ 133,761
Accounts payable and accrued liabilities	135,309	115,595
Cheques & other items in transit	17,700	82,500
Deposit guarantee fee payable	15,989	15,236
Due to clients, brokers and dealers	11,837	5,679
Other	4,858	1,258
Accrued pension benefit liability (see Note 13)	3,887	2,904
	$ 346,255	$ 356,933

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-transferable, 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, 2007, is recorded in other liabilities in the Consolidated Balance Sheet (see Note 11). Subordinated debentures, issued to March 31, 2007, are comprised as follows:

Maturity date	Interest rate	2007	2006
		($ thousands)	
June 30, 2006	5.840%	$ -	$ 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	15,785
June 30, 2011	4.630%	13,401	-
		$ 72,242	$ 71,579

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.

ATB's current non-management employees participate in the Public Service Pension Plan ("PSPP") with other Alberta public-sector employees. The PSPP is a defined benefit pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan ("the ATB Plan") with defined benefit ("DB") and defined contribution ("DC") provisions. ATB also provides a non-registered defined benefit supplemental plan ("the SRP") for designated management employees.

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Effective July 15, 2006, ATB finalized arrangements with the Government of Alberta to assume pension obligations relating to current ATB employees who participated in the PSPP prior to joining the ATB Plan (hereinafter referred to as the "PSPP take-on"). The arrangements formalize ATB's commitment to provide combined pensionable service ("CPS") benefits for qualifying members whose CPS benefits were affected by the withdrawal of ATB from the Management Employees Pension Plan.

Following the execution of the PSPP take-on agreements, certain assets and liabilities were transferred from the PSPP into the ATB Plan in respect of all employees promoted to management positions between January 1, 1994, and December 31, 2005, who were employed by ATB on July 15, 2006. Thereafter, there will be annual transfers of obligations and assets in respect of management employees promoted in the previous calendar year.

Accounting for Defined Benefit Plans - Registered, Supplemental, and Other Plans

The ATB Plan, SRP, 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 return on plan assets, member salary growth and other cost escalation factors, retirement ages of employees, mortality, and other actuarial factors.

During the year, ATB changed its accounting policy to determine the actuarial value of plan assets and to develop management's best estimate of the expected long-term rate of return on plan assets, net of investment expenses. The impact of this change was not material and has been implemented prospectively. Whereas the method used in prior years reflected the expected return that would be earned by the ATB Plan's assets based on their market-related value (reflecting changes in the fair value of plan assets using a four-year moving average), the new method uses market value of plan assets without any averaging adjustment.

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 SRP 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.

In May 2006, the provisions of the SRP were amended to provide for automatic increases in the maximum earnings recognized in the average salary calculation. The impact of this amendment, which increases the benefit obligation by $2,838, is being amortized on a straight-line basis over 12 years, the EARSP of members in the SRP as at that time.

In conjunction with the PSPP take-on, ATB formalized its commitment to provide CPS benefits to active and inactive DB members with PSPP service. The estimated net impact of this was accounted for in the year ended March 31, 2006, as a plan amendment. The March 31, 2006, projected benefit obligation of the DB plan was increased by $5,438 (in respect of active members) and for other pension obligations increased by $686 (in respect of inactive members). The net pension benefit expense for the year ended March 31, 2006, increased by $4,380 for the DB plan and by $553 for other pension obligations.

Effective July 15, 2006, benefit obligations of $35,149 and assets of $21,918 (plus market return to the payment date) were transferred into the ATB Plan in conjunction with the PSPP take-on. This net additional liability of $13,231 accepted by the DB plan represents a past service cost and is being amortized on a straight-line basis over 10.6 years, the EARSP of members subject to the transfer as at that time.

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Effective December 31, 2006, benefit obligations of $6,301 were transferred into the ATB Plan in conjunction with the PSPP take-on for members promoted to management positions in 2006. The estimated value of the asset transfer on December 31, 2006, is $3,574. This net additional liability of $2,727 accepted by the ATB Plan represents a past service cost and is being amortized on a straight-line basis over 11.2 years, the EARSP of members subject to the transfer as at December 31, 2006.

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 DC provisions of the ATB Plan. In both cases, funding contributions are expensed as they become due and are recorded in human resources in the Consolidated Statement of Income. For the year ended March 31, 2007, expenses related to the PSPP were $5,457 (2006: $4,570; 2005: $4,136) and expenses related to DC provisions of the ATB Plan were $6,927 (2006: $5,676; 2005: $5,009).

Plan Valuations, Asset Allocation, and Funding

ATB measures its accrued benefit obligations and the market values of plan assets for accounting purposes as at March 31 each year for the ATB Plan, SRP, and other pension obligations. The most recent actuarial valuation of the DB provisions of the ATB Plan (or "the DB Plan") for funding purposes was performed as of December 31, 2005. Following the PSPP take-on, this valuation was updated in respect of members subject to the PSPP take-on and a funding deficiency was determined to exist. ATB made a special payment of $22,510 on December 15, 2006, to eliminate the solvency deficiency. The next required valuation date for funding purposes is December 31, 2008.

The DB Plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. The DB Plan's actual and target asset allocations are as follows:

	Target March 31, 2007 (1)		Actual	Target 2005-2007 (1)		Actual	Actual
	Normal	Min-Max	2007	Normal	Min-Max	2006	2005
		(in percent)			(in percent)		
Equities							
Canadian	25	20-30	27	40	30-50	44	43
Foreign	45	40-50	43	30	20-40	28	26
	70		70	70		72	69
Fixed income							
Canadian	30	20-40	30	30	25-40	28	31
Cash	-	0-15	-	-	0-15	-	-
	100		100	100		100	100

(1) Target asset allocations were amended March 27, 2007.

ATB makes regular funding contributions to the DB Plan in accordance with the most recent valuation for funding purposes. The SRP and other pension obligations are not pre-funded and such benefits are paid from ATB's assets as they become due.

Cash Payments

Total cash paid or payable for employee future benefits for the year ended March 31, 2007, consisting of cash contributed by ATB in respect of the DB and DC provisions of the ATB Plan (including $22,510 discussed above), cash payments directly to beneficiaries for the unfunded SRP, and cash contributed to the PSPP, was $39,024 (2006: $13,202; 2005: $10,775).

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Net Accrued Pension Benefit Asset (Liability)

The funded status and net accrued pension benefit asset (liability) for the DB provisions of the ATB Plan and the other pension obligations (which comprise the SRP and obligations recognized in respect of the CPS benefit obligation to inactive plan members) are comprised as follows:

	2007	2006
	($ thousands)	
Registered plan		
Fair value of plan assets	$ 154,277	$ 94,127
Projected benefit obligation	(163,129)	(118,040)
Plan funding deficit	(8,852)	(23,913)
Unamortized initial transition asset	(788)	(1,182)
Unamortized past service amendment	15,466	1,058
Unamortized actuarial net loss	14,338	24,687
Accrued Pension Benefit Asset	$ 20,164	$ 650
Supplemental and Other		
Unfunded projected benefit obligation, representing the Plan funding deficit	(6,513)	(2,442)
Unamortized past service amendment	1,833	(818)
Unamortized actuarial net loss	793	356
Accrued Pension Benefit Liability	$ 2,626	$ (2,904)

The net accrued pension benefit asset and liability are included in other assets and other liabilities in the Consolidated Balance Sheet as appropriate. See Notes 9 and 11, respectively.

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Note 13 (continued)

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan and of the SRP and other pension obligations are comprised as follows:

	Registered Plan			Supplemental and Other		
	2007	2006	2005	2007	2006	2005
			($ thousands)			
Change in Fair Value of Plan Assets						
Fair value of plan assets at beginning of year	$ 94,127	$ 78,170	$71,463	$ -	$ -	$ -
Contributions from ATB	26,503	2,374	1,611	137	393	19
Contributions from employees	1,065	1,069	1,042	-	-	-
Actual return on plan assets	11,903	16,220	5,896	-	-	-
Benefits paid	(3,752)	(2,798)	(1,842)	(137)	(393)	(19)
Net transfer in - PSPP take-on 2006	21,918	-	-	-	-	-
Net transfer in - PSPP take-on 2007	3,574	-	-	-	-	-
Actual plan expenses	(1,061)	(908)	-	-	-	-
Fair value of plan assets at end of year	$154,277	$ 94,127	$78,170	$ -	$ -	$ -
Change in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	$118,040	$ 95,894	$85,424	$ 2,442	$ 1,541	$ 1,117
Actuarial gain (loss)	(4,638)	10,294	3,975	447	294	164
Current service cost	3,064	2,365	2,119	633	221	207
Contributions from employees	1,065	1,069	1,042	-	-	-
Plan amendments re: PSPP take-on	-	5,438	-	-	686	-
Plan amendment - earnings maximum	-	-	-	2,838	-	-
Plan amendment - PSPP take-on 2006	13,231	-	-	-	-	-
Plan amendments re. PSPP take-on 2007	2,727	-	-	-	-	-
Net transfer in - PSPP take-on 2006	21,918	-	-	-	-	-
Net transfer in - PSPP take-on 2007	3,574	-	-	-	-	-
Interest cost	7,900	5,778	5,176	290	93	72
Benefits paid	(3,752)	(2,798)	(1,842)	(137)	(393)	(19)
Projected benefit obligation at end of year	$163,129	$ 118,040	$95,894	$ 6,513	$ 2,442	$ 1,541

Defined Benefit Pension Expense

Pension benefit expense for the DB provisions of the ATB Plan and for the SRP and other pension obligations is comprised as follows:

	Registered plan			Supplemental and Other		
	2007	2006	2005	2007	2006	2005
			($ thousands)			
Current service cost (including provision for expense)	$ 4,264	$ 3,265	$ 2,119	$ 633	$ 221	$ 207
Interest cost on projected benefit obligation	7,900	5,778	5,176	290	93	72
Plan amendments	15,958	5,438	-	2,838	686	-
Actual return on plan assets	(11,903)	(16,220)	(5,896)	-	-	-
Actuarial (gains) losses	(4,638)	10,294	3,975	447	294	164
	11,581	8,555	5,374	4,208	1,294	443
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between actual and expected return on plan asets	4,080	10,659	606	-	-	-
Difference between actual actuarial (gains) losses arising and actuarial (gains) losses amortized	6,130	(8,064)	(2,037)	(437)	(282)	(164)
Amortization of initial transition asset	(394)	(394)	(394)	-	-	-
Difference between actual past service amendment arsing and past service amendments amortized	(14,408)	(1,058)	-	(2,651)	(219)	(86)
Net pension benefit expense recognized	$ 6,989	$ 9,698	$ 3,549	$ 1,120	$ 793	$ 193

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		
	2007	2006	2005	2007	2006	2005
Accrued Benefit Obligations as at March 31						
Discount rate at end of year	5.30%	5.40%	5.90%	5.30%	5.40%	5.90%
Rate of compensation increase (1)	6.15%	4.20%	4.45%	7.00%	5.10%	4.50%
Defined Benefit Expense for the Year Ended						
Discount rate at beginning of year	5.40%	5.90%	6.00%	5.40%	5.90%	6.00%
Expected long-term return on plan assets	7.12%	7.35%	7.35%	7.12%	7.35%	-
Rate of compensation increase	4.20%	4.45%	4.25%	5.10%	4.50%	4.50%
Avg. remaining service period of active employees	9 years	9 years	9 years	12 years	14 years	14 years
Avg. remaining service period of active employees (2006 PSPP transfer)	10.6 years	0	0	0	0	0
Avg. remaining service period of active employees (2007 PSPP transfer)	11.2 years	0	0	0	0	0

(1) The rate of compensation increase assumed in calculating the 2007 accrued benefit obligation is shown the first year only, and incorporates merit and promotion increases. The 2006 and 2005 comparatives are shown prior to merit and promotion increases.

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, 2007, 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	$ (26,260)	$ (2,885)	$ (1,208)	$ (178)
1.0% decrease	$ 34,024	$ 3,910	$ 1,514	$ 254
Inflation Rate				
Impact of: 1.0% increase	$ 12,862	$ 3,114	$ 321	$ 65
1.0% decrease	$ (11,619)	$ (2,607)	$ (339)	$ (68)
Rate of Compensation Increase				
Impact of: 0.25% increase	$ 2,124	$ 358	$ 23	$ 5
0.25% decrease	$ (2,105)	$ (426)	$ (23)	$ (6)
Expected Long-term Rate of Return on Plan Assets				
Impact of: 1.0% increase	$ -	$ (1,099)	$ -	$ -
1.0% decrease	$ -	$ 1,099	$ -	$ -

ALBERTA TREASURY BRANCHES

Note 13 (continued)

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.

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 an equity or commodity index.

ATB enters into various "over-the-counter" derivative contracts in the normal course of its business, including interest rate swaps and options, equity options, and foreign exchange and commodity forwards. ATB uses such instruments for two purposes-for its own risk-management program and to meet the needs of ATB customers (referred to as "non-trading" and "trading" portfolios, respectively).

In its non-trading (or "corporate derivative") portfolio, ATB uses derivative financial instruments for risk-management purposes to manage its exposure to fluctuations in interest or foreign exchange rates as an integral component of its asset/liability management program. All such contracts are placed with Canadian financial institutions.

ATB's trading (or "client derivative") portfolio is not utilized to generate trading income through active assumption of market risk but rather is utilized to meet the risk-management requirements of ATB customers. ATB does not accept any net exposure to such derivative contracts (except for credit risk) as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk-management programs.

The main derivative financial instruments used by ATB include swaps, options, and 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 in the corporate derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, 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 in the corporate derivative portfolio to manage exposure to interest rate and equity market fluctuations, primarily arising from the loan and deposit portfolios. ATB also buys and sells (or writes) similar forms of option contracts relating to energy commodities in the client derivative portfolio.
- Foreign exchange or commodity forwards 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

ALBERTA TREASURY BRANCHES

Note 14 (continued)

and date in the future. ATB uses foreign exchange forward contracts in both its corporate and client derivative portfolios to manage currency exposure, either arising from its own foreign-currency denominated loans and deposits, or for its customers, respectively. Commodity forward contracts are only utilized in the client derivative portfolio.

Corporate (Non-Trading) Derivatives and Hedge Accounting

ATB's corporate (non-trading) derivative portfolio is not intended for speculative income generation but for asset/liability management purposes; that is, to manage ATB's interest rate, foreign exchange, and equity-related exposures arising from its portfolio of investment and loan assets and deposit obligations. 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 Statement of Income 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 quarterly 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 corresponding deferred gains or losses recorded in other liabilities or other assets in the Consolidated Balance Sheet, as appropriate.

Any corporate (non-trading) derivatives that do not qualify for hedge accounting are accounted for in the same manner as client (trading) derivatives.

Discontinuance of Hedge Accounting

A hedging relationship is terminated if a portion 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 measured at fair value ("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.

Client (Trading) Derivatives

ATB does not enter into derivative contracts for trading purposes except to accommodate its clients in managing their foreign-currency and energy-commodity risk exposures. In such instances, any resultant commodity exposure to ATB is simultaneously offset with another derivative contract and any resultant foreign-currency exposure to ATB not incorporated into its own risk-management program is also simultaneously offset.

ALBERTA TREASURY BRANCHES

Note 14 (continued)

Client (trading) derivatives and any corporate (non-trading) derivatives that do not meet the criteria for hedge accounting, either at inception or subsequently, are 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 on the Consolidated Statement of Income.

Financial Statement Presentation

Derivative financial instruments recorded in the Consolidated Balance Sheet as at March 31 are comprised as follows:

	Assets		Liabilities	
	2007	2006	2007	2006
	($ thousands)			
Fair value of derivatives ineligible for hedge accounting	$11,828	$ 9,403	$ 3,246	$ 851
Book value of derivatives eligible for hedge accounting	14,569	16,197	512	1,012
Total	$26,397	$ 25,600	$ 3,758	$ 1,863

Book value of corporate (non-trading) 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, and time value and yield curve or volatility factors underlying the positions.

ALBERTA TREASURY BRANCHES

Note 14 (continued)

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:

	2007			2006		
	Favourable position	Unfavourable position	Net	Favourable position	Unfavourable position	Net
	($ thousands)					
Contracts ineligible for hedge accounting						
Interest rate contracts						
Options	$ 704	$ -	$ 704	$ 1,196	$ -	$ 1,196
Swaps	287	-	287	-	(851)	(851)
	991	-	991	1,196	(851)	345
Foreign exchange contracts						
Forwards	127	(115)	12	4	-	4
Equity contracts						
Options	7,484	-	7,484	8,203	-	8,203
Forward contracts						
Commodities	3,204	(3,131)	73	-	-	-
Total fair value	$ 11,806	$ (3,246)	$ 8,560	$ 9,403	$ (851)	$ 8,552
Contracts Eligible for Hedge Accounting						
Interest rate contracts						
Options	$ 37	$ -	$ 37	$ 133	$ -	$ 133
Swaps	5,118	(2,460)	2,658	7,485	(3,434)	4,051
	5,155	(2,460)	2,695	7,618	(3,434)	4,184
Equity contracts						
Options	66,676	-	66,676	70,683	-	70,683
Total fair value	$ 71,831	$ (2,460)	$ 69,371	$ 78,301	$ (3,434)	$ 74,867
Total book value - contracts eligible for hedge accounting			$ 14,057			$ 15,185

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.

	2007			2006
	Ineligible for Hedge Accounting	Eligible for Hedge Accounting	Total	Total
	($ thousands)			
Interest rate contracts				
Options	$ 892,883	$ 106,233	$ 999,116	$ 809,327
Swaps	200,000	2,750,000	2,950,000	2,100,000
	1,092,883	2,856,233	3,949,116	2,909,327
Foreign exchange contracts				
Forwards	30,177	-	30,177	453
Equtiy contracts				
Options	19,761	244,159	263,920	319,330
Forward contracts				
Commodities	148,295	-	148,295	-
	$ 1,291,116	$ 3,100,392	$ 4,391,508	$ 3,229,110

ALBERTA TREASURY BRANCHES

Note 14 (continued)

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 credit-worthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A-low/A3/A- or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements 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.

Credit risk exposure on the derivative portfolio is comprised as follows:

	2007			2006
	Ineligible for Hedge Accounting	Eligible for Hedge Accounting	Total	Total
	($ thousands)			
Interest rate contracts				
Options	$ 704	$ 37	$ 741	$ 1,329
Swaps	287	5,118	5,405	7,485
	991	5,155	6,146	8,814
Foreign exchange contracts				
Forwards	127	-	127	4
Equity contracts				
Options	7,484	66,676	74,160	78,886
Forward contracts				
Commodities	3,204	-	3,204	-
Total derivative exposure - gross	$ 11,806	$ 71,831	83,637	87,704
Less impact of master netting agreements			(2,460)	(4,285)
Residual credit exposure on derivatives			$ 81,177	$ 83,419

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $2,353, which relates to client counterparties (2006: Nil).

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Note 14 (continued)

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:

	2007				2006
	Within 3 Months	3 to 12 Months	1 to 5 Years	Total	Total
	($ thousands)				
Interest rate contracts					
Options	$ 600,000	$ 277,124	$ 121,992	$ 999,116	$ 809,327
Swaps	250,000	1,550,000	1,150,000	2,950,000	2,100,000
Foreign exchange contracts					
Forwards	25,587	4,590	-	30,177	453
Equity contracts					
Options	7,650	71,600	184,670	263,920	319,330
Forward contracts					
Commodities	51,660	85,585	11,050	148,295	-
Total	$ 934,897	$ 1,988,899	$ 1,467,712	$ 4,391,508	$ 3,229,110

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

Standby 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

ALBERTA TREASURY BRANCHES

Note 15 (continued)

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 commitments, ATB has recourse against the customer.

ATB has also issued a $5.0 million guarantee to Canadian Depository for Securities ("CDS") in respect of one of 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:

	2007	2006
	($ thousands)	
Guarantees	$ 133,382	$ 99,945
Letters of credit	70,592	44,687
Commitments to extend credit	7,366,610	5,939,715
	$ 7,570,584	$ 6,084,347

The amounts presented above in the current and comparative year for commitments to extend credit include demand facilities of $3,221,252 (2006: $2,500,239). For demand facilities, we consider the undrawn portion to represent a commitment to our customer; however, the terms of the commitment are such that ATB would be able to adjust the credit exposure if circumstances warranted doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities that have extended commitment terms.

Disclosure in the current year includes authorized but undrawn MasterCard facilities, and the 2006 comparative has been increased by $625,209 to conform with this presentation.

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, 2007 and 2006, 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 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, 2007 and 2006, in respect of such indemnifications.

ALBERTA TREASURY BRANCHES

Note 15 (continued)

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 includes 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:

2008	$ 59,408
2009	55,612
2010	39,380
2011	16,692
2012	11,574
2013 and thereafter	29,178
	$ 211,844

The total expense in respect of premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2007, is $22,231 (2006: $19,953; 2005: $19,105).

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 certain 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, regulated funds, provincial agencies, and Crown-controlled organizations. In accordance with proposed amendments to the Directive, the amounts disclosed in the following table reflect benefits in respect of supplemental retirement benefits (comparative figures have been restated accordingly), and are the amounts earned in the years ended March 31:

	2007							2006
	Base Salary [1]	Variable pay Current [2]	Variable pay Deferred [3]	Other Cash Benefits [4]	Retirement Benefits [5]	Other Non-Cash Benefits [6]	Total	Restated Total
	($ thousands)							
Chairman of Board	$ 81	$ -	$ -	$ -	$ -	$ -	$ 81	$ 52
Board Members[7]	446	-	-	-	-	-	446	452
President and Chief Executive Officer	400	301	526	15	124	15	1,381	1,180
Chief Operating Officer	289	197	293	15	96	13	903	757
Executive Vice-President Credit	196	81	107	12	64	25	485	380
Chief Financial Officer	188	90	115	12	47	15	467	361
Executive Vice-President Treasurer	180	74	98	12	63	15	442	370
Senior Vice-President Human Resources	175	72	95	12	53	12	419	336

Notes:

(1) Base salary consists of all regular pensionable base pay earned.

(2) Current variable pay is accrued based on goal attainment for the fiscal year but is paid following the fiscal year-end.

ALBERTA TREASURY BRANCHES

Note 16 (continued)

(3) 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.

(4) Other cash benefits consist of fees for attendance at meetings, retainers, honoraria, lump sum payments, perquisite allowances, and any other direct cash remuneration.

(5) Retirement benefits reflect the period expense for pension benefits for rights to future compensation, through either the defined benefit or defined contribution provisions of ATB's registered pension plan and through our non-registered defined benefit supplemental retirement plan ("SRP"). As the registered plan is fully funded, the employer contributions reflected in the table above are considered representative of the value of benefits provided. Refer to the tables following the heading "Supplemental Retirement Plan Benefits" below for further details as to the unfunded SRP benefit provided reflected in the amounts above.

(6) 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, health care, dental coverage, vision coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, tuition, and professional memberships.

(7) The Board consists of 12 members plus the Chairman whose salary is disclosed separately.

Supplemental Retirement Plan Benefits

	2007			2006
	Current Service Cost	Prior Service and Other Costs	Total	Total
	($ thousands)			
President and Chief Executive Officer	$ 66	$ 42	$ 108	$ 48
Chief Operating Officer	51	34	85	16
Executive Vice-President Credit	32	21	53	11
Chief Financial Officer	29	7	36	13
Executive Vice-President Treasurer	28	19	47	11
Senior Vice-President Human Resources	25	17	42	5

Executive officers may receive supplemental retirement payments under the terms of ATB's SRP. None of the SRP benefit costs presented in the following table represent cash payments in the period, as ATB's retirement obligations under the SRP are not funded in advance, but are paid from operating revenues as they come due. These benefit costs represent the total estimated cost incurred in the years ended March 31 to provide annual pension income over an actuarially determined post-retirement period. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of actuarial gains and losses, amortization of past service amendments, and interest accruing on the accrued benefit obligation. Refer to Note 13 for a more detailed description of ATB's accounting for its retirement plans following the heading Accounting for Defined Benefit Plans - Registered, Supplemental, and Other Plans.

ALBERTA TREASURY BRANCHES

Note 16 (continued)

The accrued obligation for each executive under the SRP is as follows:

	Accrued Oligation March 31, 2006	Change in Accrued Obligation	Accrued Obligation March 31, 2007
		($ thousands)	
President and Chief Executive Officer	$ 428	$ 145	$ 573
Chief Operating Officer	137	330	467
Executive Vice-President Credit	106	219	325
Chief Financial Officer	28	94	122
Executive Vice-President Treasurer	83	228	311
Senior Vice-President Human Resources	41	236	277

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 Alberta on terms similar to those offered to non-related parties (also see Note 10). During the year, ATB leased certain premises from the Government of Alberta and paid insurance premiums as a participant in the Alberta Finance Risk Management Fund. For the year ended March 31, 2007, the total of these payments was $783 (2006: $767). ATB also recognized an annual deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits (refer to Notes 10 and 12).

ATB entered into a wholesale borrowing agreement with the Minister of Finance on November 24, 2003. Under this agreement, the Minister of Finance acts as fiscal agent of ATB Financial under the *Financial Administration Act* and is involved in raising wholesale deposits in the marketplace.

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:

	2007	2006
	($ thousands)	
Residential mortgage	$ 173,608	$ 143,268
Personal	69,097	59,941
Credit card	10,257	9,996
Business	5,701	6,498
	$ 258,663	$ 219,703

ALBERTA TREASURY BRANCHES

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, 2007, is $193,838 (2006: $132,225).

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, other assets, and other liabilities, except for mark-to-market amounts recognized in respect of derivative financial instruments which are carried at fair value.

Securities

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. The fair value of equity securities is determined by reference to quoted marked prices, if available.

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.

ALBERTA TREASURY BRANCHES

Note 18 (continued)

Estimated Fair Value

The estimated fair value of balance sheet financial instruments (excluding any off-balance sheet derivative instruments) as at March 31 is as follows:

	2007			2006		
	Carrying value	**Fair value**	**Fair value over carrying value**	**Carrying value**	**Fair value**	**Fair value over carrying value**
	($ thousands)					
Assets						
Cash	$ 1,095,614	$ 1,095,614	$ -	$ 1,054,125	$ 1,054,125	$ -
Securities	$ 1,684,821	$ 1,684,534	$ (287)	$ 1,381,444	$ 1,380,802	$ (642)
Loans	$ 16,994,329	$ 17,127,398	$ 133,069	$ 14,846,694	$ 14,982,572	$ 135,878
Other	$ 322,229	$ 322,229	$ -	$ 230,423	$ 230,423	$ -
Liabilities						
Deposits	$ 18,252,838	$ 18,185,488	$ (67,350)	$ 15,870,308	$ 15,791,157	$ (79,151)
Other	$ 342,368	$ 342,368	$ -	$ 354,029	$ 354,029	$ -
Subordinated debentures	$ 72,242	$ 72,028	$ (214)	$ 71,579	$ 71,428	$ (151)

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 reprice 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. Note that the gap position presented in the following table is determined as of the close of business on March 31, 2007. 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)							
2007								
Assets								
Cash	$ 78,117	$ -	$ -	$ 78,117	$ -	$ -	$ -	$ 78,117
Effective interest rate	4.35%	-	-	4.35%	-	-	-	4.35%
Securities and interest-bearing deposits with financial institutions	2,542,752	62,381	96,185	2,701,318	1,000	-	-	2,702,318
Effective interest rate	4.40%	4.31%	4.25%	4.39%	5.11%	-	-	4.39%
Loans	10,115,424	360,828	715,047	11,191,299	5,838,139	65,231	(100,340)	16,994,329
Effective interest rate	6.43%	5.83%	5.70%	6.36%	5.44%	6.32%	-	6.08%
Other	-	-	-	-	-	-	519,954	519,954
	12,736,293	423,209	811,232	13,970,734	5,839,139	65,231	419,614	20,294,718
Liabilities and Equity								
Deposits	12,293,647	707,446	1,264,363	14,265,456	3,987,382	-	-	18,252,838
Effective interest rate	2.48%	3.73%	3.71%	2.65%	4.07%	-	-	2.96%
Other liabilities and equity	-	-	-	-	-	-	1,969,638	1,969,638
Subordinated debentures	-	-	-	-	-	-	72,242	72,242
Effective interest rate	-	-	-	-	-	-	4.57%	4.57%
	12,293,647	707,446	1,264,363	14,265,456	3,987,382	-	2,041,880	20,294,718
On-balance sheet gap	442,646	(284,237)	(453,131)	(294,722)	1,851,757	65,231	(1,622,266)	-
Derivatives used for asset/liability gap management (notional amounts)								
Pay side swaps	(2,550,000)	-	-	(2,550,000)	(400,000)	-	-	(2,950,000)
Effective interest rate	4.35%	-	-	4.35%	3.82%	-	-	-
Receive side swaps	650,000	100,000	1,450,000	2,200,000	750,000	-	-	2,950,000
Effective interest rate	4.44%	4.30%	4.29%	4.33%	4.25%	-	-	-
Off-balance sheet gap	(1,900,000)	100,000	1,450,000	(350,000)	350,000	-	-	-
Net gap	$ (1,457,354)	$ (184,237)	$ 996,869	$ (644,722)	$ 2,201,757	$ 65,231	$ (1,622,266)	$ -
As % of assets	(7.18%)	(0.91%)	4.91%	(3.18%)	10.85%	0.32%	(7.99%)	-
2006								
Assets	11,259,786	422,468	774,766	12,457,020	4,852,968	60,249	277,578	17,647,815
Liabilities and equity	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)	-
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)%	-

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 comprises the branch, agency, and ABM networks and provides financial services to individuals, independent business, and agricultural customers;
- Corporate Financial Services provides financial services to medium- and large-size corporate borrowers; and
- Investor Services provides wealth management solutions including retail brokerage, mutual funds, portfolio management, and investment advice to ATB customers.

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.

ALBERTA TREASURY BRANCHES

Note 20 (continued)

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 (1)	Total
			($ thousands)		
2007					
Net interest income	$ 423,176	$ 62,515	$ 5,127	$ 80,987	$ 571,805
Other income	119,462	14,901	28,969	16,329	179,661
Total operating revenues	542,638	77,416	34,096	97,316	751,466
Provision for (recovery of) credit losses	(8,699)	12,003	-	(8,515)	(5,211)
Non-interest expenses	385,403	19,279	36,069	41,538	482,289
Net income (loss)	$ 165,934	$ 46,134	$ (1,973)	$ 64,293	$ 274,388
Total assets (2)	$ 13,645,926	$ 3,454,594	$ 2,800	$ 3,191,398	$ 20,294,718
Total liabilities	$ 13,974,317	$ 1,875,709	$ 436,294	$ 2,385,015	$ 18,671,335
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

(1) 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.

(2) During the year, assets with a carrying value of $252,078 were transferred to Corporate Financial Services from Personnel and Business Financial Services.

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 prorata 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 other business units.

NOTE 21 FUTURE CHANGES IN ACCOUNTING POLICIES

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 that take effect for ATB beginning April 1, 2007: CICA Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges. The CICA also reissued Section 3861, Financial Instruments - Disclosures and Presentation with modified provisions. The impact of these new standards, often referred to collectively as "financial instruments," will be reflected in our financial statements for the quarter ending June 30, 2007.

Comprehensive Income

Section 1530 provides guidance for reporting comprehensive income, the change in equity during a period from transactions and other events with non-owners. It is comprised of net income and other comprehensive income ("OCI"). For ATB, OCI will include unrealized gains and losses on financial assets classified as "available-for-sale" and changes in fair value of the effective portion of cash flow hedging instruments. Amounts recognized in OCI will eventually be reclassified to the Statement of Income and reflected in net income in accordance with other generally accepted accounting standards.

Our consolidated financial statements will include a new statement, a Consolidated Statement of Change in Equity that will reflect (1) net income and the continuity of retained earnings and (2) OCI and the continuity of accumulated other comprehensive income ("AOCI"). The cumulative amount of OCI recognized, AOCI, will represent a new component of equity on the Consolidated Balance Sheet.

Financial Instruments - Recognition and Measurement

Section 3855 establishes a new framework for the recognition and measurement of financial assets, financial liabilities, and non-financial derivatives. All existing financial assets and liabilities must be classified by type or intention on April 1, 2007, or on inception for any new financial instrument entered into after that date. This classification will determine how the financial assets and liabilities are accounted for.

ALBERTA TREASURY BRANCHES

Note 21 (continued)

Financial assets and liabilities classified as "held-for-trading" will be measured on the Consolidated Balance Sheet at fair value with changes in fair value (unrealized gains or losses) recorded in "Net income." Financial assets classified as "available-for-sale" will be measured at fair value with unrealized gains or losses, including any foreign exchange component, being recognized in OCI rather than net income. Financial assets classified as "held-to-maturity" or "loans and receivables" and financial liabilities not classified as held-for-trading will be measured at amortized costs using the effective interest method.

The accounting standard requires derivative financial instruments, including "embedded derivatives," to be classified as held-for-trading (and measured at fair value on the balance sheet with unrealized gains and losses recorded in net income) unless the derivative is designated and qualifies as a cash flow hedge, in which case changes in fair value are reflected in OCI. Embedded derivatives are components within a financial instrument or other contract that has features similar to a derivative. Embedded derivatives having economic characteristics and risks not considered closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument having the same terms would qualify as a derivative and if the host contract is not already measured at fair value.

Section 3855 will permit ATB to designate any financial instrument as held-for-trading on initial recognition or adoption of the new standard if fair value can be reliably determined, irrespective of whether the instrument would otherwise qualify as held-for-trading.

Hedges

Section 3865 establishes the criteria under which hedge accounting may be applied. Hedge accounting is optional and allows the recognition of the effective component of a hedging derivative in net income at the same time as the hedged item, reducing income volatility. The change in fair value attributable to any ineffective component of a hedging derivative is recognized in net income during the period of ineffectiveness.

Only two hedging strategies relevant to ATB may be hedge accounted: cash flow hedges and fair value hedges. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging item is recognized in OCI and the ineffective portion in net income. Any such amounts recognized in AOCI will be reclassified out of OCI into net income in the period when net income is affected by the variability in cash flows of the underlying hedged item. In a qualifying fair value hedge relationship, changes in the fair value of the hedged item are recognized in net income and the carrying amount of the hedged item is adjusted accordingly. The changes in fair value of the hedging derivative are also recognized in net income and, to the extent the hedging relationship is effective, will offset the changes in the fair value of the hedged item.

To the extent cash flow hedging relationships that existed prior to the adoption of these new standards effective on April 1, 2007, are continued and qualify under the new criteria, any gain or loss on the hedging instrument that is attributable to the effective portion will be recognized in AOCI and that amount attributable to the ineffective portion will be included in opening retained earnings on transition. ATB does not intend to continue to hedge account for any previously effective fair value hedges under the new standards.

Impact of Adopting New Accounting Policies in Conformance with Financial Instruments

As these new financial instrument 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 and opening AOCI as at that date and results for prior periods will not be restated. The impact of these standards is not expected to be material in the context of our Consolidated Balance Sheet.

ALBERTA TREASURY BRANCHES

Note 21 (continued)

Capital Disclosures

In December 2006, the CICA issued a new accounting standard that takes effect for ATB beginning April 1, 2008: CICA Handbook Section 1535, Capital Disclosures. This standard will require ATB to disclose certain qualitative and quantitative information regarding our objectives, policies, and processes for management of capital as well as our compliance with externally imposed capital requirements. The impact of this new standard will be reflected in our financial statements for the quarter ending June 30, 2008.

Financial Instruments - Disclosures and Presentation

In December 2006, the CICA issued other new accounting standards that will take effect for ATB beginning April 1, 2008: CICA Handbook Section 3862, Financial Instruments - Disclosures, and CICA Handbook Section 3863, Financial Instruments - Presentation. These standards will complement the new standards on financial instruments issued in January 2005 and will expand on the disclosure requirements of Section 3861, placing an increased emphasis on disclosures about the risks associated with recognized and unrecognized financial instruments and how those risks are managed. The impact of these new standards will also be reflected in our financial statements for the quarter ending June 30, 2008.

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

March 31, 2007

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, 2007, 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, 2007 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
June 28, 2007

ATB INVESTMENT MANAGEMENT INC.

BALANCE SHEET

As At March 31, 2007

	2007	2006 Restated (Note 3)
ASSETS		
Current assets		
Cash	$ 1,148,221	$ 2,235,623
Accounts receivable	2,877,219	1,778,066
Prepaid expenses	40,652	18,084
	4,066,092	4,031,773
Capital assets (Note 4)	852,777	284,367
Deferred charges	-	11,645
Total assets	$ 4,918,869	$ 4,327,785
LIABILITIES		
Current liabilities		
Accrued liabilities	$ 1,683,448	$ 1,343,845
Due to affiliates (Note 5)	1,504,916	693,246
Due to ATB (Note 6)	938,783	649,023
	4,127,147	2,686,114
Commitments (Note 7)		
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	5,000	5,000
Retained earnings (deficit)	786,722	1,636,671
	791,722	1,641,671
	$ 4,918,869	$ 4,327,785

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, 2007

	2007	2006 Restated (Note 3)
Revenue		
Investment management fees	$ 18,521,702	$ 12,104,253
Other revenue	1,510,925	686,092
Interest revenue (Note 9)	83,537	57,672
	20,116,164	12,848,017
Administration and selling expenses (Note 9)		
Trailing commission	7,977,767	5,219,442
Professional fees	4,446,816	3,074,065
Salaries and employee benefits	1,962,815	1,189,085
Other expenses	1,062,186	696,196
Interest expense	16,529	81,827
	15,466,113	10,260,615
Net income for the year	$ 4,650,051	$ 2,587,402

STATEMENT OF RETAINED EARNINGS

For the Year Ended March 31, 2007

	2007	2006 Restated (Note 3)
Balance - Beginning of year (as originally stated)	$ 1,920,367	$ (836,743)
Prior period adjustment (Note 3)	(283,696)	(113,988)
Balance - Beginning of year (as restated)	1,636,671	(950,731)
Net income for the year	4,650,051	2,587,702
Dividends paid	(5,500,000)	-
Balance - End of year	$ 786,722	$ 1,636,971

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, 2007

	2007	2006 Restated (Note 3)
Cash provided for (used in)		
Operating activities		
Net income for the year	$ 4,650,051	$ 2,587,402
Items not affecting cash		
Amortization of capital assets	$ 5,022	-
Amortization of deferred charges	11,645	17,413
	4,666,718	2,604,815
Net change in non-cash working capital items		
Increase in accounts receivable	(1,099,153)	(819,504)
Increase in prepaid expenses	(22,568)	(7,351)
Increase in accrued liabilities	339,603	635,885
(Decrease) increase in due to affiliates	811,670	225,710
	4,696,270	2,639,555
Investing activities		
Purchase of capital assets	(573,432)	(284,367)
Financing activities		
Repayment of subordinated notes	-	(2,245,000)
Dividends paid	(5,500,000)	-
Increase in due to ATB	289,760	174,708
	(5,210,240)	(2,070,292)
Net change in cash	(1,087,402)	284,896
Cash - Beginning of year	2,235,623	1,950,727
Cash - End of year	$ 1,148,221	$ 2,235,623
Supplementary information		
Interest paid	$ 16,529	$ 87,832
Interest received	$ 83,537	$ 57,672

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

ATB INVESTMENT MANAGEMENT INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Management Inc. (“ATBIM”) is a wholly owned subsihary of Alberta Treasury Branches ("'ATB") established for the purpose of managing a family of ATB (“Compass”) mutual fund portfolios and providing portfolio management services to high net worth clientele. The continuing operations of ATBIM are dependent upon ATB’s ongoing financial support. ATBIM was incorporated under the *Business Corporations Act* (Alberta) on August 21, 2002. As a provincial corporation, 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 polices followed in the preparation of these financial statements are summarized below:

(a) Measurement uncertaintiy

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 Compass 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. Client fees and 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. Computer software and system development costs are 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 $76,272 (2006 – $nil) 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 ACCOUNTING CHANGE

On January 20, 2004, ATBIM entered into a fund dealing agreement with a third party financial institution stating that ATBIM will pay the institution a trailer fee on Compass mutual funds held by the institution. Due to an administrative error these fees were not paid or accrued by ATBIM prior to March 31, 2007.

The amounts that should have been accrued by ATBIM at March 31, 2006 and March 31, 2005 are $283,696 and $113,988 respectively. ATBIM has restated 2006 comparatives to reflect this adjustment, resulting in an increase in accrued liabilities and professional fees of $283,696 and $169,708 respectively; resulting in a decrease in net income of 169,708 for the year ended March 31, 2006. This has also resulted in a decrease in opening retained earnings of $283,696 for the year ended March 31, 2007. ATBIM has also increased opening deficit by $113,988 for the year ended March 31, 2006 to reflect professional fees for the year ended March 31, 2005.

NOTE 4 CAPITAL ASSETS

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Computer software	$ 21,521	$ (5,021)	$ 16,500	$ -
System development costs	836,277	-	836,277	284,367
	$ 857,798	$ (5,021)	$ 852,777	$ 284,367

ATB INVESTMENT MANAGEMENT INC.

NOTE 5 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBIM pays trading commissions to ATB Investment Services Inc. ("ATBIS") and ATB Securities Inc. ("ATBS"). ATBS collects client fees on behalf of ATBIM. ATBIS and ATBS may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBIS and ATBS. 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:

	2007	2006
Due to ATBIS	$ 864,905	$ 299,987
Due to ATBS	640,011	393,259
	$ 1,504,916	$ 693,246

NOTE 6 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 ATBIM. 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:

	2007	2006
Due to ATB	$ 938,783	$ 649,023

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2007 was 6.00% (2006 - 5.50%).

NOTE 7 COMMITMENTS

ATBIM is committed to payments under service agreements for administrative services through December 2007 in the amount of approximately $60,000.

ATB INVESTMENT MANAGEMENT INC.

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares withoug 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 withoug nominal or par value, redeemable at $100 per share.

Issued and outstanding

	2007	2006
100 Class A common 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, ATBS charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATBS and ATBIS 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	2007	2006
	Revenue			
ATB	Interest income	Interest revenue	$ 83,537	$ 57,672
	Administrative and selling expenses			
ATBIS	Trailer fees	Trailing Commission	3,224,482	2,176,688
ATBS	Trailer fees	Trailing Commission	4,753,285	3,042,754
ATB	Administrative Services	Professional fees	56,191	52,782
ATB	Information technology, rent and marketing	Other expenses	252,958	327,458
ATBS	Client referral fees	Professional fees	661,940	299,177
ATBS	Transaction fees	Other expenses	312,120	176,580
			$ 9,260,976	$ 6,075,439
	Interest expense			
ATB	Interest expense on subordinated notes	Interest expense	-	57,930
ATB	Interest expense on due to ATB	Interest expense	16,529	23,897
			$ 16,529	$ 81,827

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

ATB INVESTMENT MANAGEMENT INC.

NOTE 10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash, accounts receivable, accrued liabilities, due to affiliates and due to ATB approximates the carrying value due to the short-term nature of these instruments.

NOTE 11 SUBSEQUENT EVENTS

On May 28, 2007, the Board of Directors declared and paid a dividend of $1,000,000.

ATB INVESTMENT SERVICES INC.

Financial Statements

March 31, 2007

AUDITOR GENERAL
Alberta

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, 2007, and the statements of operations, 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 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]

Edmonton, Alberta
June 19, 2007

Fred J. Dunn, FCA
Auditor General

ATB INVESTMENT SERVICES INC.

BALANCE SHEET

As At March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash	$ 1,569,109	$ 4,884,037
Short term investments	2,834,668	-
Clients' cash held in trust	5,827,570	4,331,231
Due from affiliates (Note 3)	615,179	214,377
Due from clients	93,140	8,104
Trailer fees receivable (Note 3)	761,817	318,206
Prepaid expenses	81,056	92,128
	11,782,539	9,848,083
Capital assets (Note 4)	1,206,910	465,428
	$ 12,989,449	$ 10,313,511
LIABILITIES		
Current liabilities		
Due to clients	$ 3,476,202	$ 2,445,595
Due to brokers and dealers	2,286,403	1,773,074
Accrued liabilities	721,592	303,817
Variable compensation payable	858,456	852,645
Due to ATB (Note 5)	191,363	440,362
Unearned revenue	240,369	176,685
	7,774,385	5,992,178
Deferred variable pay	106,337	-
Subordinated notes (Note 6)	-	27,999,000
	7,880,722	33,991,178
Commitments (Note 7)		
SHAREHOLDER'S EQUITY (DEFICIENCY)		
Share capital (Note 8)	33,745,000	1,000
Deficit	(28,636,273)	(23,678,667)
	5,108,727	(23,677,667)
	$ 12,989,449	$ 10,313,511

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, 2007

	2007	2006
Revenue (Note 9)		
Commission	$ 3,975,057	$ 2,953,749
Deposit instruments	2,292,056	1,181,705
Client fees	391,429	244,150
Interest	181,256	150,798
Other	388	1,204
	6,840,186	4,531,606
Administration and selling expenses (Note 9)		
Salaries and employee benefits	5,729,070	5,071,886
Processing, selling and premises rental	2,768,777	2,732,891
Other expenses	1,542,277	1,805,640
Interest on subordinated notes	-	1,115,007
Variable compensation	1,066,339	1,114,710
Professional and training	650,156	518,012
Other interest expense	41,173	46,415
	11,797,792	12,404,561
Net loss for the year	$ 4,957,606	$ 7,872,955

STATEMENT OF DEFICIT

For the Year Ended March 31, 2007

	2007	2006
Balance - Beginning of year	$ 23,678,667	$ 15,805,712
Net loss for the year	4,957,606	7,872,955
Balance - End of year	$ 28,636,273	$ 23,678,667

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, 2007

	2007	2006
Cash provided for (used in)		
Operating activities		
Net loss for the year	$ (4,957,606)	$ (7,872,955)
Items not affecting cash		
Amortization of capital assets	10,428	-
	(4,947,178)	(7,872,955)
Net change in non-cash working capital items		
Decrease (increase) in prepared expenses	11,072	(2,445)
Cash (paid to) recevied from Clients and brokers/dealers	(37,439)	(60,154)
Decrease in due from affiliates	(400,802)	(310,099)
Increase in trailer fees receivable	(443,611)	(9,175)
Increase in variable compensation payable	5,811	150,083
Increase in accrued liabilities	417,775	196,196
Increase in unearned revenue	63,684	87,248
Increase in deferred vaiable pay	106,337	-
	(5,224,351)	(7,821,301)
Investing activities		
Purchase of short term investments	(2,834,668)	-
Purchase of capital assets	(751,910)	(465,428)
	(3,586,578)	(465,428)
Financing activities		
Issuance of share capital	5,745,000	-
Issuance of subordinated notes	-	6,500,000
Increase (decrease) in due to ATB	(248,999)	(310,802)
	5,496,001	6,189,198
Net change in cash	(3,314,928)	(2,097,531)
Cash - Beginning of year	4,884,037	6,981,568
Cash - End of year	$ 1,569,109	$ 4,884,037
Supplementary information		
Interest paid	$ 165,363	$ 1,092,510
Interest received	$ 181,256	$ 150,798

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

ATB INVESTMENT SERVICES INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

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 in Alberta 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. Certain 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

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 are 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.

(c) Cash

Cash consists of cash on deposit with ATB.

ATB INVESTMENT SERVICES INC.

Note 2 (continued)

(d) Short term investments

Short term investments consist of investments in the ATB Money Market Fund, with market value closely approximately book value. All interest income earned is included in interest income.

(e) 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.

(d) Capital assets

Capital assets are carried at cost less accumulated amortization. Computer software and 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/from clients and due to brokers and dealers

Due to clients represents cash balances in client accounts. These amounts are due on demand.

Due from clients are debit positions in client accounts. The amounts relate to margin balances and pending trades.

Due to brokers and dealers represents amounts related to trades which have initiated but not been settled.

NOTE 3 DUE FROM AFFILIATES

In the normal course of operations, ATBIS receives trailing commissions from ATB Investment Management ("ATBIM") and pays certain expenses on behalf of ATBIM, ATB Securities Inc. ("ATBS") and ATB Insurance Advisors Inc. ("ATBIA"). These amounts are duly recorded as receivables and payables in the respective accounts of ATBIS, ATBIM, ATBS and ATBIA. 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:

	2007	2006
Due from ATBIM	$ 187,349	$ 63,441
Due from ATBS	417,636	150,936
Due from ATBIA	10,194	-
	$ 615,179	$ 214,377

Also, included in Trailer fees receivable is $677,556 (2006 – $236,546) from ATBIM, which has been reclassified in the comparatives for presentation purposes.

ATB INVESTMENT SERVICES INC.

NOTE 4 CAPITAL ASSETS

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Computer software	$ 44,692	$ (10,428)	$ 34,264	$ -
System development costs	1,172,646	-	1,172,646	465,428
	$ 1,217,338	$ (10,428)	$ 1,206,910	$ 465,428

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 ATB are generally settled in the following month. The amounts due to ATB as at March 31 are as follows:

	2007	2006
Due to ATB	$ 191,363	$ 440,362

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31,2007 was 6.00% (2006 – 5.50%).

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.

The subordinated notes were converted into 27,999,000 class A common shares on April 1, 2006.

	2007	2006
Balance - Beginning of year	$ 27,999,000	$ 21,499,000
Issuances	-	6,500,000
Conversion to share capital	(27,999,000)	-
Balance - End of year	$ -	$ 27,999,000

NOTE 7 COMMITMENTS

ATBIS is committed to payments under service agreements for data processing services through November 2007 in the amount of approximately $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 and outstanding

	2007	2006
Class A common shares	33,744,100	100
Amount	$ 33,745,000	$ 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 ATB and 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	2007	2006
	Revenue			
ATBIM	Trailer fees	Commission Revenue	$ 3,224,482	$ 2,176,688
ATB	Referral fees	Interest	146,588	150,798
ATB	Transaction fees	Deposit Instruments	2,292,056	1,181,705
			$ 5,663,126	$ 3,509,191
	Administration and selling expenses			
ATB	Processing	Processing, selling and premises rental	$ 2,653,569	$ 2,494,318
ATB	Selling	Processing, selling and premises rental	249,303	310,919
ATB	Premises and equipment rental	Processing, selling and premises rental	436,668	361,632
ATB	Adminstrative Services	Professional and training	325,194	244,240
ATB	Information Technology and Marketing	Other expenses	832,044	1,000,005
			$ 4,496,778	$ 4,411,114
ATB	Salaries (recoveries)	Processing, selling and premises rental	$ (250,779)	$ (214,576)
ATB	Processing (recoveries)	Processing, selling and premises rental	(434,095)	(433,978)
ATB	Training (recoveries)	Professional and training	(61,931)	(39,623)
ATB	Compliance (recoveries)	Administration and selling expenses	(539,849)	(451,811)
ATBIM	Compass services fee recovery	Professional and training	(14,265)	(9,800)
			$ (1,300,919)	$ (1,149,788)
	Interest expense			
ATB	Interest expense on subordinated notes	Interest expense	-	$ 1,115,007
ATB	Other interest expense	Interest expense	41,173	46,415
			$ 41,173	$ 1,161,422

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, short term investments, 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 carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is not materially different from its carrying value.

NOTE 11 SUBSEQUENT EVENTS

On May 28, 2007 ATBIS issued 1,000,000 Class A common shares to ATB for proceeds of $1,000,000 and has committed to issue an additional 1,000,000 Class A common shares to ATB on June 25, 2007 for proceeds of $1,000,000.

ATB SECURITIES INC.

Financial Statements

March 31, 2007

AUDITOR GENERAL
Alberta

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, 2007, and the statements of operations, 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 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
June 19. 2007

ATB SECURITIES INC.

BALANCE SHEET

As At March 31, 2007

	2007	2006 Restated (Note 3)
ASSETS		
Current assets		
Cash	$ 22,397,230	$ 11,941,463
Clients' cash held in trust	7,659,356	7,648,092
Due from clients	2,455,191	1,508,823
Due from brokers and dealers	325,448	641,722
Client fees receivable	971,467	546,900
Trailer fees receivable	373,562	265,564
Due from affiliates (Note 4)	641,284	393,259
Prepaid expenses	67,475	32,927
	34,891,013	22,978,750
Capital assets (Note 5)	1,586,354	462,871
	$ 36,477,367	$ 23,441,621
LIABILITIES		
Current liabilities		
Due to clients	$ 14,979,852	$ 10,993,095
Due to brokers and dealers	9,492,225	4,547,974
Accrued liabilities	1,888,212	1,127,754
Variable compensation payable	491,357	700,651
Due to ATB (Note 6)	1,805,971	899,201
Due to affiliates (Note 4)	417,636	150,936
Unearned revenue	41,225	34,423
	29,116,478	18,454,034
Deferred variable pay	186,232	-
Subordinated notes (Note 7)	-	17,495,000
	186,232	17,495,000
	29,302,710	35,949,034
Commitments (Note 8)		
SHAREHOLDER'S EQUITY (DEFICIENCY)		
Share capital (Note 9)	21,500,000	5,000
Deficit	(14,325,343)	(12,512,413)
	7,174,657	(12,507,413)
	$ 36,477,367	$ 23,441,621

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

ATB SECURITIES INC.

STATEMENT OF OPERATIONS

For the Year Ended March 31, 2007

	2007	2006 Restated (Note 3)
Revenue (Note 10)		
Mutual fund commissions	$ 8,418,687	$ 5,402,883
Securities commissions	2,422,435	1,800,787
Client fees	3,250,705	1,473,912
Interest revenue	944,660	553,295
Client referral fees	974,060	475,757
Other revenue	81,512	56,170
	16,092,059	9,762,804
Administration and selling expenses (Note 10)		
Variable compensation expense	7,013,328	5,125,357
Salaries and employee benefits	5,169,978	3,970,886
Processing fees	2,179,625	1,928,652
Other expenses	2,167,390	1,972,109
Professional fees	1,342,955	653,569
Other interest expense	31,713	39,507
Interest on subordinated notes	-	718,537
	17,904,989	14,408,617
Net loss for the year	$ 1,812,930	$ 4,645,813

STATEMENT OF DEFICIT

For the Year Ended March 31, 2007

	2007	2006 Restated (Note 3)
Balance - Beginning of year (as originally stated)	$ 12,199,352	$ 7,866,600
Prior period adjustment (Note 3)	313,061	-
Balance - Beginning of year (as restated)	$ 12,512,413	$ 7,866,600
Net loss for the year	1,812,930	4,645,813
Balance - End of year	$ 14,325,343	$ 12,512,413

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

ATB SECURITIES INC.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2007

	2007	2006 Restated (Note 3)
Cash provided for (used in)		
Operating activities		
Net loss for the year	$ 1,812,930	$ (4,645,813)
Items not affecting cash		
Amortization of capital assets	6,635	-
	(1,806,295)	$ (4,645,813)
Net change in non-cash working capital items		
Decrease (increase) in prepaid expenses	(34,548)	5,343
Cash (paid to) received from clients and brokers/dealers	8,289,650	(538,279)
Increase in client fees receivable	(424,567)	(403,086)
Increase in trailer fees receivable	(107,998)	(94,794)
Increase (decrease) in due to/(from) affiliates	18,675	84,389
Increase in accrued liabilities	760,458	721,171
Increase (decrease) in variable compensation payable	(209,294)	299,055
Increase in unearned revenue	6,802	12,994
Increase in deferred variable pay	186,232	-
	6,679,115	(4,559,020)
Investing activities		
Purchase of capital assets	(1,130,118)	(462,871)
Financing activities		
Issuance of share capital	4,000,000	-
Issuance of subordinated notes	-	3,500,000
Increase (decrease) in due to ATB	906,770	(280,978)
	4,906,770	3,219,022
Net change in cash	10,455,767	(1,802,869)
Cash - Beginning of year	11,941,463	13,744,332
Cash - End of year	$ 22,397,230	$ 11,941,463
Supplementary information		
Interest paid	$ 115,815	$ 721,715
Interest received	$ 944,660	$ 553,295

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

ATB SECURITIES INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

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 10). 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. Computer software and system development are 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/from clients and Due to/from brokers and dealers

Due to clients represents cash balances in client accounts. These amounts are due on demand.

Due from clients are debit positions in client accounts. The amounts relate to margin balances and pending trades.

Due to/from brokers and dealers represents amounts related to trades which have initiated but not been settled.

(g) Foreign currency translation

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 related to foreign currency transactions are translated at rates of exchange prevailing on the transaction dates. Realized and unrealized gains and losses arising from these translations are included in Other revenues in the statement of operations.

NOTE 3 ACCOUNTING CHANGE

In 2007, ATB allocated employment expenses to ATBS relating to the variable component of the defined contribution plan that certain employees participate in. The amount that should have been accrued by ATBS at March 31, 2006 was $313,061. ATBS has restated the 2006 comparatives to reflect this adjustment, which resulted in an increase to accrued liabilities, salaries and benefits expense, and net loss in the amount of $313,061 for the year ended March 31, 2006 and an increase in opening deficit of $313,061 for the year ended March 31, 2007.

ATB SECURITIES INC.

NOTE 4 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. ATBIM, ATB Investment Services Inc. ("ATBIS") and ATB Insurance Advisors Inc. ("ATBIA") may pay for certain expenses on behalf of ATBS. Alternatively, ATBS may pay for certain expenses on behalf of ATBIM, ATBIS and ATBIA. These amounts are duly recorded, as payables and receivables, in each of ATBS's, ATBIM's and ATBIS's and ATBIA'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:

	2007	2006
Due from ATBIM	$ 640,011	$ 393,259
Due from ATBIA	1,273	-
Due to ATBIS	(417,636)	(150,936)
	$ 223,648	$ 242,323

NOTE 5 CAPITAL ASSETS

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Computer software	$ 28,436	$ (6,635)	$ 21,801	-
System development costs	1,564,553	-	1,564,553	462,871
	$ 1,592,989	$ (6,635)	$ 1,586,354	$ 462,871

NOTE 6 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:

	2007	2006
Due to ATB	$ 1,805,971	$ 899,201

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2007 was 6.00% (2006 – 5.50%).

ATB SECURITIES INC.

NOTE 7 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.

The subordinated notes were converted into 17,495,000 class A common shares on April 1, 2006.

	2007	2006
Balance - Beginning of year	$ 17,495,000	$ 13,995,000
Issuances	-	3,500,000
Conversion to share capital	(17,495,000)	-
Balance - End of year	$ -	$ 17,495,000

NOTE 8 COMMITMENTS

ATBS is committed to payments under service agreements for data processing services through November 2007 in the amount of approximately $52,000.

NOTE 9 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding

	2007	2006
Class A common shares	21,495,000	100
Amount	$ 21,500,000	$ 5,000

ATB SECURITIES INC.

NOTE 10 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBS earns income in the form of trailer fees, and interest and other income from ATB and ATBIM. 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	2007	2006
	Revenue			
ATBIM	Trailer fees	Mutual fund commisions	$ 4,753,285	$ 3,042,754
ATBIM	Referral fees	Client referral fees	661,940	299,177
ATBIM	Transaction fees	Client referral fees	312,120	176,580
ATB	GIC referral fees	Securities commissions	1,626,035	1,208,101
ATB	Interest income	Interest revenue	737,686	444,562
			$ 8,091,066	$ 5,171,174
	Administration and selling expenses			
ATB	Processing	Processing fees	$ 2,179,625	$ 1,928,652
ATB	Information technology, rent and marketing	Other expenses	939,082	907,369
ATB	Employee services	Professional fees	382,535	212,884
			$ 3,501,242	$ 3,048,905
ATBIM	Compass service fee recovery	Professional fees	$ (10,875)	$ (8,400)
			$ (10,875)	$ (8,400)
	Interest expense			
ATB	Interest expense on subordinated notes	Interest expense	-	$ 718,537
ATB	Other interest expense	Interest expense	31,713	39,507
			$ 31,713	$ 758,044

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 SECURITIES INC.

NOTE 11 FINANCIAL INSTRUMENTS

(a) Fair value

The fair value of cash, due from (to) clients, due from (to) brokers and dealers, client fees receivable, trailer fees receivable, due from (to) affiliates, accrued liabilities, variable compensation payable and amounts due to ATB approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is not materially different from its carrying value.

(b) Currency risk

ATBS has material amount of financial instruments denominated in foreign currencies. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBS does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2007, US dollar denominated cash amounted to US$516,155, due from clients amounted to US$108,921, accrued liabilities amounted to US$70,741, due to clients amounted to US$502,424 and due to brokers and dealers amounted to US$49,878.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

December 31, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the statement of financial position of the Credit Union Deposit Guarantee Corporation as at December 31,2006 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, 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
February 16, 2007

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

STATEMENT OF FINANCIAL POSITION

As at December 31, 2006

	2006	2005
ASSETS	($ thousands)	
Cash	$ 13,764	$ 11,573
Investments (Note 3)	110,422	104,355
Accrued interest receivable	935	846
Income taxes receivable	238	-
Due from Credit Unions	3,404	2,912
Other assets (Note 4)	822	803
Property and equipment (Note 5)	258	223
	$ 129,843	$ 120,712
LIABILITIES		
Accounts payable and accrued liabilities	$ 1,041	$ 932
Income taxes payable	-	55
Accrual for financial assistance (Note 6)	1,400	1,600
Deferred revenue	1,239	1,156
Special contribution payable (Note 7)	12,982	11,032
Long-term unclaimed credit union balances	674	599
	17,336	15,374
Commitments and contingencies (Note 8)		
EQUITY		
Deposit Guarantee Fund	110,716	103,725
Master Bond Fund	1,791	1,613
	112,507	105,338
	$ 129,843	$ 120,712

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, 2006

	2006 Budget (Note 11)	2006 Actual	2005 Actual
		($ thousands)	
DEPOSIT GUARANTEE FUND			
Revenues:			
Deposit guarantee assessments	$ 17,550	$ 18,853	$ 16,367
Investment income	5,300	5,286	6,267
	22,850	24,139	22,634
Expenses:			
Provision for (recovery of) financial assistance (Note 6)	475	(259)	266
Special contribution (Note 7)	11,777	12,982	11,032
Administration expenses (Schedule 1)	4,870	4,289	3,800
	17,122	17,012	15,098
Income before income taxes	5,728	7,127	7,536
Income taxes (Note 9)	63	136	412
Net income for the year	5,665	6,991	7,124
Equity at beginning of year	102,466	103,725	96,601
Equity at end of year	$ 108,131	$ 110,716	$ 103,725
MASTER BOND FUND			
Revenues:			
Insurance assessments	$ 1,293	$ 1,277	$ 1,195
Investment income	65	89	57
	1,358	1,366	1,252
Expenses:			
Insurance premiums	869	860	989
Administration (Schedule 1)	120	120	120
Insurance claims	281	208	222
	1,270	1,188	1,331
Net income (loss) for the year	88	178	(79)
Equity at beginning of year	1,741	1,613	1,692
Equity at end of year	$ 1,829	$ 1,791	$ 1,613

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, 2006

	2006		2005
	Budget (Note 11)	Actual	Actual
		($ thousands)	
Operating activities:			
Assessments received	$ 18,883	$ 19,753	$ 17,485
Investment income received	5,360	5,286	6,337
Financial assistance recovered (paid)	(475)	59	9
Interest and bank charges paid	(5)	(11)	(4)
Insurance claims paid	(275)	(154)	(345)
Income taxes paid	(129)	(453)	(114)
Paid to suppliers and employees	(5,802)	(4,947)	(4,440)
Special contribution paid	(10,811)	(11,032)	(9,972)
Cash flows from operating activities	6,746	8,501	8,956
Investing activities:			
Purchase of investments, net	(5,412)	(6,067)	(7,580)
Purchase of property and equipment	(334)	(243)	(193)
Cash flows used in investing activities	(5,746)	(6,310)	(7,773)
Cash inflow	1,000	2,191	1,183
Cash at beginning of year	12,000	11,573	10,390
Cash at end of year	$ 13,000	$ 13,764	$ 11,573

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

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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, 2006, credit unions in Alberta held deposits including accrued interest totalling $11,785,174,000 (2005 - $10,034,758,000). 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, investment income, net provision for financial assistance, special contribution, administrative expenses and 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.

(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 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 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, 2006, securities held by the Fund have an average effective market yield of 4.55% per annum (2005 -3.62% per annum).

(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 statement of financial position, 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. The fair values of investments are disclosed in Note 3.

(j) Future change in accounting policies

The Canadian Institute of Chartered Accountants issued two new accounting standards: "Financial Instruments - Recognition and Measurement" and "Comprehensive Income" that will affect the Corporation's reporting. These new requirements apply to the Corporation on January 1, 2007 and will be adopted prospectively as of that date. The principal impacts of implementing these standards will be as follows:

- a new component of Equity will be created called "Other comprehensive income" and the Corporation's 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 statement of financial position 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.

As these standards will be implemented prospectively, any impact of re-measuring financial instruments at fair value on January 1, 2007 will be recognized in opening equity as at that date and results for prior periods will not be restated. The impact of adopting these new accounting policies has not yet been determined.

NOTE 3 INVESTMENTS

	2006		2005	
	Cost	Market Value [2]	Cost	Market Value [2]
	($ thousands)			
Securities issued or guaranteed by:				
Canada	$ 39,533	$ 39,609	$ 39,537	$ 39,935
Provinces	22,947	23,117	21,824	22,144
Financial Institutions	10,606	10,718	-	-
Canadian Dollar Public Debt Pool	4,054	3,977	-	-
Other [1]	33,282	33,099	42,994	43,096
Total	$ 110,422	$ 110,520	$ 104,355	$ 105,175

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.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Note 3 (continued)

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 Universe Bond Index and 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, 2006, securities held have an average effective yield of 4.30% per annum based on cost (2005 - 4.40%); 4.24% per annum based on market (2005 - 4.10%). These securities have the following term structure based on cost: under one year - 6% (2005 - 2%); over one year and under five years - 35% (2005 - 49%); over five years and under ten years - 59% (2005 - 49%).

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 $1,079,000 (2005 - $1,039,000) 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.

NOTE 4 OTHER ASSETS

	2006	2005
	($ thousands)	
Prepaid expenses	$ 787	$ 790
Future income taxes recoverable	35	13
Total	$ 822	$ 803

NOTE 5 PROPERTY AND EQUIPMENT

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	($ thousands)			
Furniture and equipment	$ 425	$ 348	$ 77	$ 58
Computer equipment	224	171	53	54
Leasehold improvements	214	143	71	24
Computer software	316	259	57	87
Total	$ 1,179	$ 921	$ 258	$ 223

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.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Note 6 (continued)

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.

	2006	2005
	($ thousands)	
Accrual for financial assistance:		
Balance at beginning of year	$ 1,600	$ 1,325
Change in accrual for financial assistance	(200)	275
Balance at end of year	$ 1,400	$ 1,600
Provision for financial assistance:		
Change in accrual for financial assistance	$ (200)	$ 275
Financial assistance payments	-	3
Loan loss recoveries	(59)	(12)
(Recovery of) provision for financial assistance	$ (259)	$ 266

NOTE 7 SPECIAL CONTRIBUTION PAYABLE

	2006	2005
	($ thousands)	
Balance at beginning of year	$ 11,032	$ 9,972
Payment of previous year's special contribution	(11,032)	(9,972)
Special contribution for the year	12,982	11,032
Balance at end of year	$ 12,982	$ 11,032

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 $483,000 (2005 - $601,000).

The following amounts represent minimum payments over the next five years:

2007	$ 112,000
2008	112,000
2009	119,000
2010	120,000
2011	20,000

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

(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.

The Corporation's statutory income tax rate is 15.9% (2005 - 17.0%). 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:

	2006	2005
	($ thousands)	
Expected income tax expense on pre-tax income at the statutory rate (net of general tax reduction)	$ 1,158	$ 1,266
Add (deduct) tax effect of:		
Non-taxable assessments	(3,191)	(2,982)
Non-deductible special contribution	2,058	1,873
Non-taxable provision for financial assistance	(41)	45
Non-deductible insurance premiums	136	168
Non-deductible insurance claims	33	38
Other	(17)	4
Income taxes	$ 136	$ 412

At December 31, 2006 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $222,000 (2005 - $76,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 15.9%.

	2006	2005
	($ thousands)	
Current income taxes	$ 158	$ 398
Future income taxes	(22)	14
Income taxes	$ 136	$ 412

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]	2006 Total	2005 Total
			($ thousands)		
Chair [4,5,7]	$ 15	$ -	$ -	$ 15	$ 41
Board Members [4,7]	88	-	-	88	83
Current senior management:					
President and Chief Executive Officer	212	50	33	295	227
Vice President, Finance and Administration	163	26	20	209	174
Vice President, Credit and Risk Management	161	26	19	206	151
Director, Strategic Planning and Information Services	110	10	15	135	113
Director, Special Projects [6]	20	-	5	25	89

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 2005 includes the current and the previous incumbent who retired January 31, 2005.

6 The individual was on leave for a portion of 2005 and 2006.

7 The minimum and maximum amounts paid to directors was $2,000 (2005 - $9,000) and $24,000 (2005 - $41,000) respectively. The average amount paid to directors was $11,000 (2005 - $16,000).

NOTE 11 2006 BUDGET

The 2006 budget was approved by the Board of Directors on September 27, 2005.

NOTE 12 COMPARATIVE FIGURES

The 2005 figures have been reclassified where necessary to conform to 2006 presentation.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

SCHEDULE TO THE FINANCIAL STATEMENTS

SCHEDULE OF ADMINISTRATION EXPENSES — Schedule 1

For the Year Ended December 31, 2006

	2006		2005
	Budget	Actual	Actual
	($ thousands)		
Deposit Guarantee Fund			
Salaries and benefits	$ 3,343	$ 3,223	$ 2,977
Rental charges	207	212	161
Amortization	218	207	91
Other	292	172	96
Staff travel	231	172	156
Office	185	155	130
Professional fees	254	120	153
Board and committee fees	178	103	124
Board and committee expenses	82	45	32
	4,990	4,409	3,920
Allocation to Master Bond Fund	(120)	(120)	(120)
	$ 4,870	$ 4,289	$ 3,800

N.A. PROPERTIES (1994) LTD.

Financial Statements

March 31, 2007

AUDITOR GENERAL
Alberta

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 31,2007 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, 2007 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 28, 2007

N.A. PROPERTIES (1994) LTD.

BALANCE SHEET

As At March 31, 2007

	2007	2006
	($ thousands)	
ASSETS		
Cash (Note 4)	$ 2,667	$ 2,643
Note receivable (Note 5)	20	17
	$ 2,687	$ 2,660
LIABILITIES		
Obligations under indemnities and commitments (Note 6)	$ 801	$ 881
SHAREHOLDER'S EQUITY		
Share capital (Note 7)	5,769	5,769
Deficit	(3,883)	(3,990)
	1,886	1,779
	$ 2,687	$ 2,660

On behalf of the Board:

Sole Director – Rod Matheson

STATEMENT OF OPERATIONS AND DEFICIT

For the Year Ended March 31, 2007

	2007	2006
	($ thousands)	
Revenue		
Interest and other	$ 113	$ 78
Expense		
General and administrative	86	6
Operating income before provision	27	72
Recovery of (provisions for) obligations under indemnities and commitments (Note 6)	80	83
Excess (deficiency) of revenue over expense for the year	107	155
Deficit, beginning of year	(3,990)	(4,145)
Deficit, end of year	$ (3,883)	$ (3,990)

The accompanying notes are part of these financial statements.

N.A. PROPERTIES (1994) LTD.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007
(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, 2007, securities held by the Fund have an average effective market yield of 4.36% per annum (March 31, 2006: 3.96% 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 31,2007 is $20 (2006 - $17). 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, 2007 is estimated to be $60 (2006 – $52) 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 $1,690 at March 31,2007 (2006 – $1,852). 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:

	2007	2006
Beginning balance	$ 881	$ 964
(Recovery of) provision for obligations under indemnities and commitments	$ (80)	$ (83)
Ending balance	$ 801	$ 881

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

		2007	2006
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, 2007.

NOTE 10 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2007 and 2006.

NOTE 11 BUDGET

The Company's annual budget appears in the 2006-07 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, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholder of Gainers Inc.

I have audited the consolidated balance sheet of Gainers Inc. as at September 30,2006 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 30,2006 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
November 23, 2006

GAINERS INC.

CONSOLIDATED BALANCE SHEET

As at September 30, 2006

	2006	2005
	($ thousands)	
Assets		
Cash	$ 2	$ 2
Investment in and amount due from former affiliate (Note 2)	-	-
	$ 2	$ 2
Liabilities		
Accounts payable and accrued liabilities	151	191
Principal and interest on prior year income taxes (Note 3)	11,334	10,544
Long-term debt (Note 4)	192,905	192,861
	204,390	203,596
Shareholder's Deficiency		
Share capital (Note 6)	1	1
Deficit	(204,389)	(203,595)
	(204,388)	(203,594)
	$ 2	$ 2

Approved by the Board of Directors:

Dan Harrington, Director

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

For the Year Ended September 30, 2006

	2006	2005
	($ thousands)	
Expenses		
Interest on prior years' income taxes	$ 790	$ 690
General and administrative	4	4
Net loss for the year	(794)	(694)
Deficit, beginning of year	(203,595)	(202,901)
Deficit, end of year	$ (204,389)	$ (203,595)

The accompanying notes are part of these consolidated financial statements.

GAINERS INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2006

	2006	2005
	($ thousands)	
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (794)	$ (694)
Net change in non-cash working capital items	750	670
	(44)	(24)
Financing activities		
Proceeds from long-term debt	44	24
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, 2006
(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.

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

GAINERS INC.

Note 2 (continued)

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 2 1,2000 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 $111. These non-capital losses expire between 2007 and 2026.

	2006	2005
	($ 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	13,606	13,562
Accrued interest	34,491	34,491
	$ 192,905	$ 192,861

NOTE 4 LONG-TERM DEBT

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 30,2006 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.

GAINERS INC.

Note 4 (continued)

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

Interest

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

Security

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

Master Agreement

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 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.

GAINERS INC.

Note 5 (continued)

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 made 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.

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

	2006	2005
	($ 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, 2007

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	$ 23,307
Accounts and interest receivable	
Corporate income tax	19,989,783
Fuel tax	3,026
	20,016,116
Alberta Treasury Branches	
Loans and accounts receivable	65,445,000
	$ 85,461,116

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 note	$5,955,800,000	$5,943,956,815
Debentures	120,000,000	119,901,500
	$6,075,800,000	$6,063,858,315

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 2006-07 fiscal year for which securities were pledged under Part 6 of the *Financial Administration Act* was $Nil.

STATEMENT OF GUARANTEES AND INDEMNITIES

For the year ended March 31, 2007

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, 2007, 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	Payments	Recoveries
CROWN GUARANTEES		
Gainers Inc. and subsidiaries	$ 23,307	$ -
Feeder Association payments recoverable from the Department of Agriculture, Food and Rural Development	1,400,000	1,400,000
	1,423,307	1,400,000
CROWN INDEMNITIES		
Native residential school litigation indemnity payments recoverable from the Department of Education	16,726	16,726
	16,726	16,726
	$ 1,440,033	$ 1,416,726

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

December 31, 2006

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, 2006 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, 2006 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]

Edmonton, Alberta — Fred J. Dunn, FCA

March 2, 2007 — Auditor General

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2006

	2006	2005
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 14,615,134	$ 12,588,648
Contributions receivable (Note 6)	31,759	29,406
Accrued investment income and accounts receivable	4,461	4,102
	14,651,354	12,622,156
Liabilities		
Accounts payable	6,305	3,014
Net assets available for benefits	14,645,049	12,619,142
Accrued Benefits		
Actuarial value of accrued benefits	15,391,700	13,482,700
Deficiency	$ (746,651)	$ (863,558)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in assets		
Contributions (Note 7)	$ 834,972	$ 733,705
Net investment income (Note 8)	1,788,399	1,563,841
	2,623,371	2,297,546
Decrease in assets		
Pension benefits	429,125	398,607
Refunds to members	142,388	85,706
Transfers to other plans	7,078	4,342
Plan expenses (Note 9)	18,873	17,225
	597,464	505,880
Increase in net assets	2,025,907	1,791,666
Net assets available for benefits at beginning of year	12,619,142	10,827,476
Net assets available for benefits at end of year	$ 14,645,049	$ 12,619,142

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

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 948,100	$ 880,200
Benefits earned	680,100	581,700
Changes in actuarial assumptions (Note 10 (a))	801,200	368,100
Net experience losses (Note 10 (a))	69,200	36,500
	2,498,600	1,866,500
Decrease in accrued benefits		
Benefits paid including interest	589,600	500,200
Net increase in accrued benefits	1,909,000	1,366,300
Accrued benefits at beginning of year	13,482,700	12,116,400
Accrued benefits at end of year (Note 10)	$ 15,391,700	$ 13,482,700

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Deficiency at beginning of year	$ (863,558)	$ (1,288,924)
Increase in net assets available for benefits	2,025,907	1,791,666
Net increase in accrued benefits	(1,909,000)	(1,366,300)
Deficiency at end of year	$ (746,651)	$ (863,558)

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

LOCAL AUTHORITIES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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, 2006 were 6.75% (2005 6.40%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.64% (2005 9.14%) of the excess for employees, and 7.75% (2005 7.40%) of pensionable earnings up to the YMPE and 10.64% (2005 10.14%) of the excess for employers.

The rates were reviewed by the Board in 2006 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 Board determined that a contribution rate change for 2007 is not necessary.

(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 may be payable to members who become totally disabled and retire early with at least two years of membership. Reduced pensions may be 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 receive the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being 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 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. 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.

LOCAL AUTHORITIES 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:

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 and private investments 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.

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 cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

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, cross-currency interest rate swaps and swap option contracts. 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.

LOCAL AUTHORITIES PENSION PLAN

Note 2 (continued)

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

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.

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

Gains and losses on derivative 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)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 253,109	1.7	$ 226,699	1.8
Canadian Long Term Government Bond Pool (b)	2,664,300	18.2	2,398,465	19.1
Canadian Dollar Public Bond Pool (b)	714,449	4.9	829,968	6.6
Real rate of return bonds (c)	615,007	4.2	622,491	4.9
Private Mortgage Pool (d)	433,098	3.0	286,011	2.3
External Managers Currency Alpha Pool (e)	34,653	0.3	36,616	0.3
Total fixed income securities	4,714,616	32.3	4,400,250	35.0
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (f)	1,314,274	9.0	1,150,817	9.1
Canadian Equity Enhanced Index Pool (g)	740,665	5.1	641,255	5.1
Canadian Small Cap Equity Pool (f)	632,963	4.3	557,826	4.4
Private Equity Pool	32,295	0.2	10,215	0.1
Domestic Passive Equity Pooled Fund	-	-	81,273	0.7
Tactical Asset Allocation Pool (k)	(202,077)	(1.4)	(133,596)	(1.1)
	2,518,120	17.2	2,307,790	18.3
United States Equities (Schedule C)				
U.S. Structured Equity Pool (h)	719,693	4.9	646,015	5.2
External Managers				
U.S. Small/Mid Cap Equity Pool (i)	580,953	4.0	506,844	4.0
Portable Alpha U.S. Transfer Pool (j)	463,124	3.2	306,251	2.4
Tactical Asset Allocation Pool (k)	252,296	1.7	166,889	1.3
	2,016,066	13.8	1,625,999	12.9
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (l)	2,236,374	15.3	1,704,667	13.5
EAFE Emerging Markets Equity Pool (m)	163,768	1.1	146,642	1.2
EAFE Structured Equity Pooled Fund (n)	411,736	2.8	409,690	3.3
	2,811,878	19.2	2,260,999	18.0
Alternative Investments - Equities				
External Managers				
Absolute Return Strategy Pool (o)	579,942	4.0	483,302	3.9
Private Income Pools (p)	277,266	1.9	155,241	1.2
Foreign Private Equity Pools (p)	173,184	1.2	53,280	0.4
Timberland Pool (q)	50,372	0.3	52,231	0.4
	1,080,764	7.4	744,054	5.9
Total equities	8,426,828	57.6	6,938,842	55.1
Real Estate (Schedule E)				
Private Real Estate Pool (r)	1,473,690	10.1	1,249,556	9.9
Total investments	$ 14,615,134	100.0	$ 12,588,648	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 Long Term Government Bond Pool (CLGB) and the Canadian Dollar Public Bond Pool (CDPB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Long Term All Government Bond Index and the Scotia Capital Universe Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada while the CDPB 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 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 U.S. Structured Equity Pool is 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 Total Return 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 invest in futures, swaps and other structured investments.

(i) The External Managers U.S. 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 U.S. 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.

LOCAL AUTHORITIES PENSION PLAN

Note 3 (continued)

(j) The Portable Alpha U.S. Transfer 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.

(k) The Tactical Asset Allocation 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. 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.

(l) 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.

(m) 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.

(n) 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.

(o) The External Managers Absolute Return Strategy Pool is managed 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.

(p) The Private Income Pools (PIP) and the Foreign Private Equity Pools (FPEP) are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 6% and the Consumer Price Index plus 8% respectively. The PIP invests in infrastructure related projects that are structured to yield high current income. The FPEP invests in institutionally sponsored international 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.

(q) 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.

(r) 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.

LOCAL AUTHORITIES 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 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 33.5% fixed income instruments, 56.5% 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.

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. Generally there are underlying securities supporting all swaps and 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.

LOCAL AUTHORITIES PENSION PLAN

Note 5 (continued)

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

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, 2006:

	2006					2005	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Forward foreign exchange contracts	100	-	-	$1,829,863	$ (19,937)	$1,588,770	$ 3,540
Equity index swap contracts	75	25	-	1,416,623	40,023	1,354,629	23,766
Equity index futures contracts	100	-	-	856,531	28,927	498,130	5,944
Swap option contracts	73	9	18	660,555	(482)	-	-
Interest rate swap contracts	10	49	41	635,831	(574)	366,982	6,995
Credit default swap contracts	4	19	77	408,346	637	122,556	1,126
Cross-currency interest rate swap contracts	18	33	49	321,275	10,780	290,591	17,036
Bond index swap contracts	100	-	-	204,976	1,176	50,352	1,560
				$6,334,000	$ 60,550	$4,272,010	$ 59,967

(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

	2006	2005
	($ thousands)	
Employers	$ 16,744	$ 15,585
Employees	15,015	13,821
	$ 31,759	$ 29,406

LOCAL AUTHORITIES PENSION PLAN

NOTE 7 CONTRIBUTIONS

	2006	2005
	($ thousands)	
Current and optional service		
Employers	$ 435,722	$ 384,213
Employees (a)	392,214	344,929
Transfers from other plans	7,036	4,563
	$ 834,972	$ 733,705

(a) Includes $13,881,000 (2005 $12,881,000) of optional service contributions.

NOTE 8 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	$ 1,365,737	$ 1,192,185
Interest income	252,838	230,535
Dividend income	141,454	120,269
Real estate operating income	66,180	52,646
Securities lending income	4,842	2,999
Pooled funds management and associated custodial fees (Note 9)	(42,652)	(34,793)
	$ 1,788,399	$ 1,563,841

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed Income Securities	$ 162,258	$ 400,017
Canadian Equities	404,907	550,697
Foreign Equities		
United States	234,374	34,378
Non-North American	601,378	254,080
Alternative Investments - Equities	123,803	57,884
Real Estate	261,679	266,785
	$ 1,788,399	$ 1,563,841

LOCAL AUTHORITIES PENSION PLAN

Note 8 (continued)

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	14.0%	13.1%	7.5%
Policy Benchmark**	13.0%	12.5%	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.

NOTE 9 PLAN EXPENSES

	2006	2005
	($ thousands)	
General administration costs and process improvement costs		
Alberta Pensions Administration Corporation (APA)*	$ 14,471	$ 13,297
Alberta Local Authorities Pension Plan Corp.**	1,910	1,662
Investment management costs	2,300	2,067
Actuarial fees	192	199
	$ 18,873	$ 17,225

* Comparative figure excludes plan board specific costs paid by APA ($1,165,000).

** Comparative figure includes plan board specific costs paid by APA ($1,165,000) and LAPP corporation costs ($497,000).

General administration costs and process improvement costs, including Plan Board costs (see Note 12) were paid to Alberta Pensions Administration Corporation and Alberta Local Authorities Pension Plan Corp. on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

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 $42,652,000 (2005 $34,793,000) (see Note 8), which have been included in calculating net investment income, are excluded from plan expenses.

LOCAL AUTHORITIES PENSION PLAN

Note 9 (continued)

Alberta Local Authorities Pension Plan Corp. costs include remuneration to senior officials of the Corporation as follows:

	2006	2005*
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$ 182	$ 193
Benefits**	43	20
Vice-President, Policy and Legal		
Salary and bonus	140	127
Benefits**	27	11
Vice-President, Investments***		
Salary and bonus	170	-
Benefits**	32	-
	$ 594	$ 351

* Remuneration for 2005 was paid by the LAPP Corporation.

** Includes employer's contribution to the Management Employees Pension Plan for 2006.(2005 Employer's contribution to the Local Authorities Pension Plan).

*** New position in 2006.

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $375 per member (2005 $333 per member).

Pooled funds management and associated custodial fees amounted to $260 per member (2005 $222 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 0.42% (2005: 0.41%) of assets under administration.

NOTE 10 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2005 by Mercer Human Resource Consulting and was then extrapolated to December 31, 2006. The 2005 valuation was completed after the financial statements of the Plan for 2005 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2005 are accounted for as assumptions changes and net experience losses in 2006.

LOCAL AUTHORITIES PENSION PLAN

Note 10 (continued)

The following is a summary of actuarial assumption changes and net experience losses as revealed in the 2005 valuation and reported in 2006:

	2006	2005
	($ thousands)	
Changes in actuarial assumptions		
Change in the investment rate of return assumption	$ 801,200	$ -
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
	$ 801,200	$ 368,100
Net experience losses (gains)		
Combined salary, CPP's YMPE increases and interest on contributions were other than assumed	$ 43,300	$ 68,200
Retirement, termination, mortality and disability experiences were less favourable than assumed	35,900	53,700
Cost-of-living increase in pension benefit payments were lower than expected, prior service data and other changes	(10,000)	(85,400)
	$ 69,200	$ 36,500

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.

The major assumptions used were:

	2005 Valuation and 2006 Extrapolation	2004 Valuation and 2005 Extrapolation
	%	
Investment rate of return	6.30	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' policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2006 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 2007.

LOCAL AUTHORITIES PENSION PLAN

Note 10 (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, 2006:

	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%	$ 1,054	0.8%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	636	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	2,498	2.9%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2005 valuation was 12.93%.

NOTE 11 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's deficiency is determined on the fair value basis for accounting purposes. However 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 $13,919 million at December 31, 2006 (2005 $12,821 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 2.95% of pensionable earnings shared equally between employers and employees until December 31, 2020. The special payments have been included in the rates in effect at December 31, 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 $125,000 (2005 $107,000).

LOCAL AUTHORITIES PENSION PLAN

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2006 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, Alberta Local Authorities Pension Plan Corp. 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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 289,324	$ 274,927
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed	1,416,483	1,691,768
Provincial		
Alberta, direct and guaranteed	272	433
Other, direct and guaranteed	1,701,455	1,545,484
Municipal	14,209	16,667
Corporate, public and private	1,259,605	842,346
	4,392,024	4,096,698
Receivable from sale of investments and accrued investment income	35,365	29,486
Liabilities for investment purchases	(2,097)	(861)
	33,268	28,625
	$ 4,714,616	$ 4,400,250

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 4.80% per annum (2005 4.00% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount.

	2006	2005
	%	
under 1 year	1	1
1 to 5 years	8	9
6 to 10 years	17	19
11 to 20 years	19	20
over 20 years	55	51
	100	100

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule B

December 31, 2006

	Plan's Share 2006	2005
	($ thousands)	
Deposits and short-term securities	$ 46,567	$ 46,033
Public equities (a) (b)		
Consumer discretionary	174,582	174,470
Consumer staples	86,340	109,520
Energy	507,842	526,917
Financials	673,062	626,683
Health care	17,134	31,933
Industrials	274,890	210,413
Information technology	128,281	108,266
Materials	386,525	312,312
Telecommunication services	156,927	106,227
Utilities	18,984	25,736
	2,424,567	2,232,477
Passive Index	10,649	10,842
	2,435,216	2,243,319
Private Equity Pool	32,295	10,215
Receivable from sale of investments and accrued investment income	9,550	65,732
Liabilities for investment purchases	(5,508)	(57,509)
	4,042	8,223
	$ 2,518,120	$ 2,307,790

(a) Reflects the Plan's effective investments in Canadian public equities, after taking into account the Plan's proportionate share of Canadian equity index swaps and futures contracts held by pooled funds (see Note 5).

(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, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 68,900	$ 55,868
Public equities (a) (b)		
Consumer discretionary	227,037	175,884
Consumer staples	141,649	112,720
Energy	165,395	138,303
Financials	410,996	316,301
Health care	247,055	215,816
Industrials	244,386	197,119
Information technology	308,383	236,785
Materials	76,429	73,724
Telecommunication services	52,664	34,441
Utilities	66,751	55,258
	1,940,745	1,556,351
Passive Index	2,088	3,163
	1,942,833	1,559,514
Receivable from sale of investments and accrued investment income	11,401	28,539
Liabilities for investment purchases	(7,068)	(17,922)
	4,333	10,617
	$ 2,016,066	$ 1,625,999

(a) Reflects the Plan's effective investments in United States public equities, after taking into account the Plan's proportionate share of U.S. equity index swaps and futures contracts held by pooled funds (see Note 5).

(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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 66,345	$ 11,065
Public equities (a) (b)		
Consumer discretionary	345,175	256,028
Consumer staples	171,918	148,349
Energy	191,506	165,619
Financials	779,898	605,562
Health care	188,947	172,277
Industrials	363,778	273,890
Information technology	176,798	145,075
Materials	194,062	171,282
Telecommunication services	169,695	138,350
Utilities	125,921	91,538
	2,707,698	2,167,970
Passive Index	67,203	72,840
Receivable from sale of investments and accrued investment income	37,988	29,812
Liabilities for investment purchases	(67,356)	(20,688)
	(29,368)	9,124
	$ 2,811,878	$ 2,260,999

(a) Reflects the Plan's effective investments in Non-North American public equities, after taking into account the Plan's proportionate share of Non-North American equity index swaps and futures contracts held by pooled funds (see Note 5).

(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 the stock exchange on which stocks were purchased:

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
United Kingdom	$ 582,808	$ 438,811
Japan	532,109	486,395
France	297,905	219,520
Germany	203,747	128,711
Switzerland	156,477	161,710
Netherlands	155,092	114,840
Spain	110,419	60,002
Italy	95,288	68,609
Australia	85,974	84,971
Sweden	54,239	47,015
Other	433,640	357,386
	$ 2,707,698	$ 2,167,970

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 761	$ 161
Real estate (a)		
Office	730,834	622,778
Retail	431,799	415,364
Industrial	187,191	124,164
Residential	71,208	56,985
	1,421,032	1,219,291
Passive Index	50,963	27,493
Receivable from sale of investments and accrued investment income	934	2,611
	$ 1,473,690	$ 1,249,556

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2006	**2005**
	($ thousands)	
Ontario	$ 814,926	$ 756,288
Alberta	444,158	331,244
Quebec	134,237	108,816
British Columbia	27,711	22,943
	$ 1,421,032	$ 1,219,291

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

December 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 Management Employees Pension Plan (the Plan) as at December 31, 2006 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, 2006 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 2, 2007, except as to Note 10
which is as of March 22, 2007

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2006

	2006	2005
	($ thousands)	
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 2,237,985	$ 1,949,988
Accrued investment income and accounts receivable	513	358
Contributions receivable		
Employees	3,128	2,922
Employers	5,347	5,002
	2,246,973	1,958,270
Liabilities		
Accounts payable	81	98
Net assets available for benefits	2,246,892	1,958,172
Actuarial value of accrued benefits	2,253,657	2,124,067
Deficiency	$ (6,765)	$ (165,895)

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

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Net investment income (Note 6)		
Investment income	$ 279,150	$ 227,795
Investment expenses (Note 7)	(3,958)	(3,368)
	275,192	224,427
Member service operations		
Contributions		
Current and optional service		
Employees	38,774	34,157
Employers	65,229	51,846
Pension benefits	(84,937)	(76,873)
Refunds to members	(4,653)	(1,900)
Transfers from other plans, net	322	953
Member service expenses (Note 7)	(1,207)	(1,416)
	13,528	6,767
Increase in net assets	288,720	231,194
Net assets available for benefits at beginning of year	1,958,172	1,726,978
Net assets available for benefits at end of year	$ 2,246,892	$ 1,958,172

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

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 143,120	$ 134,735
Benefits earned	75,738	70,351
	218,858	205,086
Decrease in accrued benefits		
Benefits paid and transfers	(89,268)	(77,820)
Other changes in accrued benefits		
Net experience gains	-	(19,648)
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
Net increase in accrued benefits	129,590	128,988
Accrued benefits at beginning of year	2,124,067	1,995,079
Accrued benefits at end of year (Note 8)	$ 2,253,657	$ 2,124,067

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Deficiency at beginning of year	$ (165,895)	$ (268,101)
Increase in net assets available for benefits	288,720	231,194
Net increase in accrued benefits	(129,590)	(128,988)
Deficiency at end of year	$ (6,765)	$ (165,895)

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

MANAGEMENT EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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, 2006 were unchanged at 10.5% of pensionable salary up to the *maximum pensionable salary* limit under the federal *Income Tax Act* for employees and 18.0% 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 may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be 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 commuted value for all service or all contributions made by the member to the 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.

(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 and private investments 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.

(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 cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

(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, cross-currency interest rate swaps and swap option contracts. 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.

Note 2 (continued)

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

(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) Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

Gains and losses on derivative 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)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 11,844	0.5	$ 11,941	0.6
Canadian Dollar Public Bond Pool (b)	610,563	27.3	568,464	29.2
Private Mortgage Pool (c)	99,239	4.4	100,428	5.1
Real rate of return bonds (d)	65,908	2.9	69,780	3.6
External Managers Currency Alpha Pool (e)	5,479	0.3	3,003	0.2
Total fixed income securities	793,033	35.4	753,616	38.7
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	198,157	8.9	200,825	10.3
Canadian Pooled Equities Fund (g)	132,596	5.9	118,669	6.1
External Managers				
Canadian Equity Enhanced Index Pool (h)	63,835	2.9	50,447	2.6
Canadian Large Cap Equity Pool (i)	45,272	2.0	41,581	2.1
Canadian Multi-Cap Pool (j)	53,960	2.4	31,710	1.6
Growing Equity Income Pool (k)	27,454	1.2	27,396	1.4
Tactical Asset Allocation Pool (m)	(31,114)	(1.4)	(21,175)	(1.1)
Private Equity Pool	4,593	0.2	1,453	0.1
	494,753	22.1	450,906	23.1
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	244,566	10.9	199,883	10.2
Tactical Asset Allocation Pool (m)	38,846	1.7	26,452	1.4
External Managers				
U.S. Mid/Small Cap Equity Pool (n)	36,894	1.7	32,187	1.7
Portable Alpha U.S. Transfer Pool (o)	32,884	1.5	16,790	0.9
Growing Equity Income Pool (k)	8,977	0.4	6,871	0.3
	362,167	16.2	282,183	14.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	279,349	12.5	234,175	12.0
Emerging Markets Equity Pool (q)	24,852	1.1	23,913	1.2
EAFE Passive Equity Pool (r)	9,983	0.4	16,430	0.9
EAFE Structured Equity Pooled Fund (r)	60,243	2.7	39,409	2.0
	374,427	16.7	313,927	16.1
Alternative Investments - Equities				
Private Equity and Private Income Pools (s)	47,188	2.1	22,560	1.1
External Managers				
Absolute Return Strategies Pool (t)	8,687	0.4	-	-
	55,875	2.5	22,560	1.1
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	157,730	7.1	126,796	6.5
Total equities	1,444,952	64.6	1,196,372	61.3
Total investments	$ 2,237,985	100.0	$ 1,949,988	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 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.

MANAGEMENT EMPLOYEES 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 U.S. companies that exhibit attractive valuation, growth and financial characteristics.

(l) The U.S. Structured Equity Pool is passively managed. The portfolio is 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 Total Return 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.

(m) The Tactical Asset Allocation 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. 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.

(n) The External Managers U.S. 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.

(o) The Portable Alpha U.S. Transfer 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.

(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 External Managers EAFE Passive Equity Pool's 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)

(s) The Private Equity Pools 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 Pools are managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6% over the long term. The pools invest in infrastructure related projects that are structured to provide high current income.

(t) The External Managers Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 6%. The pool is intended to yield absolute positive investment returns with low volatility using various investment strategies.

(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 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 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).

MANAGEMENT EMPLOYEES 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. Generally there are underlying securities supporting all swaps and 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.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

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, 2006:

	2006					2005	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Swap option contracts	74	9	17	$ 564,505	$ (412)	$ -	$ -
Equity index swap contracts	79	21	-	483,740	16,104	382,966	10,257
Interest rate swap contracts	8	51	41	479,319	(265)	125,539	2,489
Credit default swap contracts	3	16	81	322,494	339	43,450	402
Forward foreign exchange contracts	100	-	-	189,322	(676)	98,285	(71)
Bond index swap contracts	100	-	-	172,144	651	27,902	608
Equity index futures contracts	100	-	-	166,706	4,912	102,745	1,242
Cross-currency interest rate swap contracts	18	32	50	140,716	4,734	110,488	7,606
				$ 2,518,946	$ 25,387	$ 891,375	$ 22,533

Note 5 (continued)

(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 NET INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	2006	2005
	($ thousands)	
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 194,333	$ 156,572
Interest income	57,727	50,416
Dividend income	19,564	15,105
Real estate operating income	6,910	5,234
Securities lending income	616	468
	279,150	227,795
Investment expenses	(3,958)	(3,368)
Net investment income	$ 275,192	$ 224,427

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed Income Securities	$ 33,021	$ 52,470
Canadian Equities	85,516	103,056
Foreign Equities		
United States	41,278	3,491
Non-North American	82,131	36,313
Alternative Investments - Equities	5,612	2,465
Real Estate Equities	27,634	26,632
Net investment income	$ 275,192	$ 224,427

Note 6 (continued)

Investment expenses totalling $3,958,000 (2005 $3,368,000) 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	14.0%	12.7%	7.9%
Policy Benchmark**	13.2%	12.0%	7.1%

* 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 7 INVESTMENT AND MEMBER SERVICE EXPENSES

Member service expenses, including Board costs in the amount of $49,000 (2005 $43,000) were charged to the Plan on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

Total Plan expenses including investment and member service expenses amounted to $675 per member (2005 $667 per member).

Total Plan expenses including investment and member service expenses amounted to 0.23% (2005: 0.24%) of assets under administration.

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, 2006, after taking into account the impact of salary range increases 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.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 8 (continued)

The major assumptions used were:

	2006 Extrapolation	2004 Valuation and 2005 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.

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, 2006:

	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%	$ 165	1.0%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	34	0.5%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	308	3.7%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was at 21.3%.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 9 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's deficiency is determined on the fair value basis for accounting purposes. However 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 $2,028 million at December 31, 2006 (2005 $1,837 million).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 7.2% of pensionable earnings shared between employees and employers until December 31, 2018. The special payments have been included in the rates in effect at December 31, 2006 (see Note 1(b)).

NOTE 10 SUBSEQUENT EVENT

In March 2007, the *Appropriation (Supplementary Supply) Act 2007* was passed authorizing the Province to make a lump sum payment of $40 million to the Plan for the Government's portion of the Plan's unfunded actuarial deficiency.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2006 presentation.

NOTE 12 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 Management Employees Pension Board.

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$ 19,493	$ 21,375
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	219,720	223,628
Provincial		
Alberta, direct and guaranteed	232	296
Other, direct and guaranteed	97,833	118,298
Municipal	288	3,187
Corporate, public and private	448,734	379,610
	766,807	725,019
Receivable from sale of investments and accrued investment income	7,479	7,292
Liabilities for investment purchases	(746)	(70)
	6,733	7,222
	$ 793,033	$ 753,616

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 5.17% per annum (2005 4.24% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount:

	2006	2005
	%	
under 1 year	2	2
1 to 5 years	29	29
6 to 10 years	34	32
11 to 20 years	13	15
over 20 years	22	22
	100	100

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 2,341	$ 3,372
Public equities (a) (b)		
Consumer discretionary	27,163	25,940
Consumer staples	14,927	15,743
Energy	126,687	118,017
Financials	153,545	138,695
Health care	3,725	5,088
Industrials	25,385	26,153
Information technology	22,022	18,465
Materials	73,240	64,298
Telecommunication services	26,969	22,233
Utilities	4,775	4,758
	478,438	439,390
Passive index	-	62
	478,438	439,452
Private Equity Pool	4,593	1,453
Receivable from sale of investments and accrued investment income	9,804	11,771
Liabilities for investment purchases	(423)	(5,142)
	9,381	6,629
	$ 494,753	$ 450,906

(a) Reflects the Plan's effective investments in Canadian public equities, after taking into account the Plan's proportionate share of Canadian equity index swaps and futures contracts held by pooled funds (see Note 5).

(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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 8,737	$ 7,694
Public equities (a) (b)		
Consumer discretionary	38,417	29,542
Consumer staples	30,415	24,164
Energy	32,980	24,336
Financials	80,103	59,906
Health care	42,154	35,867
Industrials	40,710	32,052
Information technology	53,002	40,269
Materials	11,407	9,621
Telecommunication services	11,108	7,204
Utilities	12,899	9,476
	353,195	272,437
Passive index	133	201
	353,328	272,638
Receivable from sale of investments and accrued investment income	845	6,452
Liabilities for investment purchases	(743)	(4,601)
	102	1,851
	$ 362,167	$ 282,183

(a) Reflects the Plan's effective investments in United States public equities, after taking into account the Plan's proportionate share of U.S. equity index swaps and futures contracts held by pooled funds (see Note 5).

(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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 9,535	$ 1,283
Public equities (a) (b)		
Consumer discretionary	45,698	35,640
Consumer staples	22,826	20,216
Energy	25,472	22,989
Financials	103,737	83,737
Health care	24,929	23,706
Industrials	47,742	38,028
Information technology	23,241	19,955
Materials	26,065	23,732
Telecommunications services	22,323	19,112
Utilities	16,911	12,684
	358,944	299,799
Passive index	10,198	11,878
Receivable from sale of investments and accrued investment income	5,430	3,223
Liabilities for investment purchases	(9,680)	(2,256)
	(4,250)	967
	$ 374,427	$ 313,927

(a) Reflects the Plan's effective investments in Non-North American public equities, after taking into account the Plan's proportionate share of Non-North American equity index swaps and futures contracts held by pooled funds (see Note 5).

(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 the stock exchange on which stocks were purchased.

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
United Kingdom	$ 77,735	$ 61,072
Japan	70,610	66,859
France	38,976	30,118
Germany	26,808	17,683
Switzerland	20,812	22,262
Netherlands	20,083	15,629
Spain	14,532	8,250
Italy	12,610	9,433
Australia	11,751	11,683
Sweden	7,252	6,482
Other	57,775	50,328
	$ 358,944	$ 299,799

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 81	$ 16
Real estate (a)		
Office	78,222	63,196
Retail	46,216	42,148
Industrial	20,035	12,599
Residential	7,621	5,782
	152,094	123,725
Passive index	5,455	2,790
Receivable from sale of investments and accrued investment income	100	265
	$ 157,730	$ 126,796

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2006	**2005**
	($ thousands)	
Ontario	$ 87,222	$ 76,743
Alberta	47,539	33,612
Quebec	14,367	11,042
British Columbia	2,966	2,328
	$ 152,094	$ 123,725

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

March 31, 2007

AUDITOR GENERAL
Alberta

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, 2007 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, 2007 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 18, 2007

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At March 31, 2007

	2007	2006
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 102,134	$ 94,007
Contributions receivable	216	202
Accounts receivable	-	950
	102,350	95,159
Liabilities		
Accounts payable	71	763
Net assets available for benefits	102,279	94,396
Accrued Benefits		
Accrued benefits (Note 7)	96,164	88,612
Actuarial Surplus (Deficiency) (Note 8)	$ 6,115	$ 5,784

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, 2007

	2007	2006
	($ thousands)	
Increase in assets		
Net investment income (Note 9)	$ 10,210	$ 11,878
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	823	785
Province of Alberta	1,651	1,572
Unfunded liabilities		
Province of Alberta	-	1,172
	2,474	3,529
	12,684	15,407
Decrease in assets		
Pension benefits and refunds	4,664	3,967
Administration expenses (Note 10)	137	85
	4,801	4,052
Increase in net assets	7,883	11,355
Net assets available for benefits at beginning of year	94,396	83,041
Net assets available for benefits at end of year	$ 102,279	$ 94,396

See accompanying notes and schedules.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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.

(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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 2 (continued)

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, cross-currency interest rate swaps and swap option contracts. 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.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) 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.

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

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)

	2007		2006	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule B)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 1,152	1.1	$ 1,457	1.6
Universe Fixed Income Pool (b)	36,931	36.2	32,741	34.8
Private Mortgage Pool (c)	5,510	5.4	5,514	5.9
Currency Alpha Pool (d)	49	-	39	-
Tactical Asset Allocation Pool (o)	331	0.3	188	0.2
Total fixed income securities	43,973	43.0	39,939	42.5
Canadian Equities (Schedule C)				
Canadian Structured Equity Pool (e)	7,466	7.3	8,266	8.8
Canadian Pooled Equities Fund (f)	5,118	5.0	5,189	5.5
Canadian Equity Enhanced Index Pool (g)	2,453	2.4	2,396	2.5
Canadian Large Cap Equity Pool (h)	1,816	1.8	1,813	1.9
Growing Equity Income Pool (i)	1,017	1.0	1,029	1.1
Canadian Multi-Cap Pool (k)	2,130	2.1	1,126	1.2
Private Equity Pool (j)	193	0.3	105	0.2
Tactical Asset Allocation Pool (o)	(1,445)	(1.4)	(984)	(1.0)
	18,748	18.5	18,940	20.2
United States Equities (Schedule D)				
U.S. Structured Equity Pool (l)	10,133	9.9	-	-
Standard & Poors 500 Index Fund	-	-	6,090	6.5
US Passive Equity Pooled Fund	-	-	3,283	3.5
Portable Alpha US Equity Pool (m)	3,268	3.2	1,902	2.0
US Mid/Small Cap Equity Pool (n)	1,869	1.8	1,817	1.9
Growing Equity Income Pool (i)	335	0.3	319	0.3
Tactical Asset Allocation Pool (o)	1,429	1.4	994	1.1
	17,034	16.6	14,405	15.3
Non-North American Equities (Schedule E)				
EAFE Active Equity Pool (p)	11,682	11.4	11,183	11.9
Emerging Markets Equity Pool (q)	998	1.0	968	1.0
EAFE Passive Equity Pool (r)	2	-	952	1.0
EAFE Structured Equity Pooled Fund (r)	2,755	2.7	1,972	2.1
	15,437	15.1	15,075	16.0
Alternative Investments - Equities				
Private Income Pool (t)	744	0.7	7	-
Real Estate Equities (Schedule F)				
Private Real Estate Pool (s)	6,198	6.1	5,641	6.0
Total equities	58,161	57.0	54,068	57.5
Total investments	$ 102,134	100.0	$ 94,007	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 Universe Fixed Income 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 Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing 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 Canadian Structured Equity Pool 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.

(f) 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.

(g) The 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 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.

(i) 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.

(j) The Private Equity Pool is in the process of orderly liquidation.

(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.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 3 (continued)

(l) The US Structured Equity Pool 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.

(m) 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.

(n) The 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.

(o) 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, 2007 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 futures contracts.

(p) The 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 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 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.

(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.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Note 3 (continued)

(t) The Private Income Pool is managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 6% respectively. 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.

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 45% fixed income instruments and 55% 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.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

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.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

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:

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

	2007					2006	
	Maturity			Net			Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	79	21	-	$ 22,521	$ (12)	$ 17,568	$ 322
Credit default swap contracts	1	4	95	55,749	(189)	10,897	25
Interest rate swap contracts	8	53	39	22,009	(41)	8,002	(26)
Swap option contracts	66	25	9	41,963	3	-	-
Equity index futures contracts	100	-	-	8,103	183	5,174	86
Cross-currency interest rate swap contracts	20	41	39	7,121	202	5,154	327
Forward foreign exchange contracts	100	-	-	3,882	(18)	2,342	-
Bond index swap contracts	100	-	-	13,062	15	1,921	180
				$ 174,410	$ 143	$ 51,058	$ 914

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, 2007 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, 2007 and changes in net assets available for benefits for the year then ended is as follows:

	2007	2006
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	$ 4,963	$ 4,532
Income tax refundable	6,783	5,693
Accounts payable, net	(603)	(298)
	11,143	9,927
Liabilities		
Actuarial value of accrued benefits	65,611	60,475
Excess of liabilities over assets	(54,468)	(50,548)
Reserve Fund (a)	58,406	46,100
Net liabilities	$ 3,938	$ (4,448)

(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.

	2007	2006
	($ thousands)	
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	$ 1,063	$ 1,067
Province of Alberta	1,063	1,067
Investment income	192	123
	2,318	2,257
Decrease in assets		
Increase in actuarial value of accrued benefits	(5,136)	(12,726)
Pension benefits	(1,006)	(651)
Administration costs	(96)	(67)
	(6,238)	(13,444)
Increase in the Reserve Fund	12,306	7,269
Increase (Decrease) in net assets	8,386	(3,918)
Net (liabilities) assets at beginning of year	(4,448)	(530)
Net (liabilities) assets at end of year	$ 3,938	$ (4,448)

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, 2007. 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, 2007. 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, 2007 Extrapolation	March 31, 2003 Valuation and March 31, 2006 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

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.

	2007	2006
	($ thousands)	
Accrued pension benefits at beginning of year	$ 88,612	$ 83,625
Interest accrued on benefits	5,760	5,436
Net experience losses (gains)	(1,284)	214
Benefits earned	3,318	3,304
Net benefits paid	(4,664)	(3,967)
Impact of Judicial Compensation Commission	4,422	-
Accrued pension benefits at end of year	$ 96,164	$ 88,612

(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 deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2007:

	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%	$ 6.1	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%	10.8	1.9%

* The current service cost as % of capped pensionable earnings as determined by the 2005 valuation is 20.95%.

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.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTE 9 NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2007	2006
	($ thousands)	
Net realized and unrealized gains on investments including those arising from derivative transactions	$ 6,203	$ 8,449
Interest income	2,994	2,581
Dividend income	824	658
Real estate operating income	272	271
Securities lending income	24	23
Pooled funds management and associated custodial fees	(107)	(104)
	$ 10,210	$ 11,878

The following is a summary of the Registered Plan's net investment income by type of investments:

	2007	2006
	($ thousands)	
Fixed Income Securities	$ 2,356	$ 2,003
Canadian Equities	2,469	4,814
Foreign Equities		
United States	1,517	962
Non-North American	2,507	3,095
Real Estate	1,345	1,004
Private Income	16	-
	$ 10,210	$ 11,878

NOTE 10 ADMINISTRATION EXPENSES

Administration expenses comprise $40 (2006 - $32) in investment management and $97 (2006 - $53) 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 $107 (2006 - $104), which have been deducted from investment income of the pools, are excluded from administration expenses (see Note 9).

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by Minister.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2007 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, 2007

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, 2007 are as follows:

	One Year Return				4 Year Compound Annualized Return
	2007	**2006**	**2005**	**2004**	
Time-weighted rates of return					
Short-term fixed income	4.1	2.9	2.4	3.0	3.1
Scotia Capital 91-Day T-Bill Index	*4.2*	*2.8*	*2.2*	*3.0*	*3.1*
Long-term fixed income	5.9	5.7	5.6	11.7	7.2
Scotia Capital Universe Bond Index	*5.5*	*4.9*	*5.0*	*10.8*	*6.5*
Canadian equities	13.2	28.8	15.0	36.7	22.9
S&P/TSX Composite Index	11.4	*28.4*	*13.9*	*37.7*	*22.4*
United States equities	10.4	8.1	(2.1)	22.2	9.4
Standard & Poor's 500 Index	*10.5*	*7.8*	*(1.5)*	*20.5*	*9.0*
Non-North American equities	17.6	24.1	7.6	40.9	22.0
MSCI EAFE Index	*18.7*	*20.0*	*6.2*	*40.5*	*20.8*
Real estate	25.0	21.3	17.3	7.5	17.6
IPD All Property Index	*20.5*	*17.1*	*21.3*	*8.6*	*15.1*
Private Income	4.4	*n/a*	*n/a*	*n/a*	*n/a*
Consumer Price Index plus 6.0%	*3.3*	*n/a*	*n/a*	*n/a*	*n/a*
Overall	**11.0**	**14.3**	**7.3**	**21.8**	**13.5**
Policy Benchmark	***10.3***	***12.7***	***6.8***	***21.3***	***12.6***

The current sector benchmark indices are as of March 31, 2007. 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, 2007

	Plan's Share 2007	Plan's Share 2006
	($ thousands)	
Deposits and short-term securities	$ 1,421	$ 1,730
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	8,985	9,019
Provincial, direct and guaranteed		
Alberta	13	16
Other	5,619	6,097
Municipal	17	166
Corporate, public and private	27,710	22,429
	42,344	37,727
Receivable from sale of investments and accrued investment income	414	803
Liabilities for investment purchases	(206)	(321)
	208	482
	$ 43,973	$ 39,939

(a) Fixed income securities held as at March 31, 2007 had an average effective market yield of 4.58% (2006 4.78%) per annum. The following term structure of these securities as at March 31, 2007 is based on principal amount:

	2007	2006
	%	
under 1 year	4	3
1 to 5 years	30	31
6 to 10 years	37	35
11 to 20 years	10	12
over 20 years	19	19
	100	100

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule C

March 31, 2007

	Plan's Share 2007	Plan's Share 2006
	($ thousands)	
Deposits and short-term securities	$ 122	$ 97
Public Equities (a) (b)		
Consumer discretionary	1,142	1,015
Consumer staples	491	566
Energy	4,692	5,354
Financials	6,086	5,656
Health care	126	205
Industrials	952	1,152
Information technology	769	773
Materials	2,836	2,815
Telecommunication services	1,106	882
Utilities	161	194
	18,361	18,612
Private Equities	193	105
Receivable from sale of investments and accrued investment income	276	429
Liabilities for investment purchases	(204)	(303)
	72	126
	$ 18,748	$ 18,940

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $8,334 (2006 $7,313), 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, 2007

	Plan's Share 2007	Plan's Share 2006
	($ thousands)	
Deposits and short-term securities	$ 154	$ 58
Public Equities (a) (b)		
Consumer discretionary	1,843	1,490
Consumer staples	1,543	1,205
Energy	1,636	1,343
Financial	3,655	3,044
Health care	2,034	1,821
Industrials	1,986	1,782
Information technology	2,525	2,178
Materials	580	501
Telecommunication services	552	409
Utilities	633	452
	16,987	14,225
Receivable from sale of investments and accrued investment income	113	371
Liabilities for investment purchases	(220)	(249)
	(107)	122
	$ 17,034	$ 14,405

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $12,392 (2006 $5,880), 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, 2007

	Plan's Share 2007	Plan's Share 2006
	($ thousands)	
Deposits and short-term securities	$ 168	$ 343
Public Equities (a) (b)		
Consumer discretionary	1,836	1,705
Consumer staples	1,004	859
Energy	999	1,074
Financial	4,188	4,181
Health care	906	994
Industrials	2,170	1,914
Information technology	1,003	970
Materials	1,103	1,173
Telecommunication services	903	786
Utilities	757	628
	14,869	14,284
Emerging market equity pools	416	376
Receivable from sale of investments and accrued investment income	186	341
Liabilities for investment purchases	(202)	(269)
	(16)	72
	$ 15,437	$ 15,075

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $2,731 (2006 $1,884), 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 2007	Plan's Share 2006
	($ thousands)	
United Kingdom	$ 3,122	$ 2,817
Japan	2,932	3,323
France	1,675	1,450
Germany	1,186	970
Switzerland	822	961
Netherlands	721	734
Spain	613	394
Australia	570	531
Italy	484	455
Sweden	276	297
Other	2,884	2,728
	$ 15,285	$ 14,660

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule F

March 31, 2007

	Plan's Share 2007	Plan's Share 2006
	($ thousands)	
Deposits and short-term securities	$ 7	$ 3
Real estate (a)		
Office	2,973	2,788
Retail	1,954	1,866
Industrial	774	587
Residential	271	254
	5,972	5,495
Passive index	215	131
Receivable from sale of investments and accrued investment income	4	12
	$ 6,198	$ 5,641

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2007	Plan's Share 2006
	($ thousands)	
Ontario	$ 3,493	$ 3,346
Alberta	1,817	1,538
Quebec	548	502
British Columbia	114	109
	$ 5,972	$ 5,495

PUBLIC SERVICE MANAGEMENT(CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

December 31, 2006

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, 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 Accrued Benefits and Net Assets Available for Benefits of the Plan as at December 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
March 2, 2007

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

STATEMENT OF ACCRUED BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS

As At December 31, 2006

	2006	2005
	($ thousands)	
Accrued Benefits		
Actuarial value of accrued pension benefits (Note 3)	$ 728,738	$ 684,399
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 4)	1,357	709
Accounts receivable	130	104
	1,487	813
Liabilities		
Accounts payable	10	2
Net assets available for benefits	1,477	811
Excess of actuarial value of accrued pension benefits over net assets	$ 727,261	$ 683,588

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in assets		
Contributions from the Province of Alberta	$ 58,850	$ 58,400
Investment income	66	35
	58,916	58,435
Decrease in assets		
Pension benefits	57,977	58,027
Administration expenses (Note 5)	270	345
Refunds and transfer to members	3	6
	58,250	58,378
Increase in net assets	666	57
Net assets available for benefits at beginning of year	811	754
Net assets available for benefits at end of year	$ 1,477	$ 811

The accompanying notes are part of these financial statements.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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*. 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 3(a)).

NOTE 3 ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2005 by Aon Consulting Inc. and was then extrapolated to December 31, 2006. The 2005 valuation was completed after the financial statements of the Plan for 2005 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2005 are accounted for as net experience losses and actuarial assumption changes in 2006.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Note 3 (continued)

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 as follows:

	2006 Extrapolation	2005 Valuation and 2005 Extrapolation
	%	
Real discount rate	2.25	2.25
Inflation rate	2.75	2.75
Nominal discount rate	5.0	5.0
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2005 using Scale AA	

The following statement shows the principal components of the change in the actuarial value of accrued pension benefits.

	2006	2005
	($ thousands)	
Actuarial value of accrued pension benefits at beginning of year	$ 684,399	$ 661,418
Interest accrued on benefits	36,082	37,944
Net benefits paid	(57,980)	(58,033)
Net experience losses	57,164	-
Changes in actuarial assumptions	9,073	43,070
Actuarial value of accrued pension benefits at end of year	$ 728,738	$ 684,399

(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.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Note 3 (continued)

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2006:

	Sensitivities	
	Changes in Assumptions	**Increase in Plan Deficiency**
	%	($ million)
Inflation rate increase holding the nominal discount rate assumption constant	1.0%	$ 43
Nominal discount rate decrease holding the inflation rate assumption constant	(1.0%)	77

NOTE 4 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, 2006, securities held by the Fund have an average effective market yield of 4.6% per annum (2005 3.6% per annum) and an average duration of 135 days (2005 115 days).

NOTE 5 ADMINISTRATION EXPENSES

	2006	2005
	($ thousands)	
General administration costs	$ 245	$ 335
Investment management costs	10	9
Actuarial fees	15	1
	$ 270	$ 345

General administration costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis. The Plan's share of the Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

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 $107 per member (2005 $134 per member).

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

NOTE 6 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 Management Employees Pension Board.

PUBLIC SERVICE PENSION PLAN

Financial Statements

December 31, 2006

AUDITOR GENERAL
Alberta

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, 2006 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, 2006 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (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 15, 2007

PUBLIC SERVICE PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND LIABILITY FOR ACCRUED BENEFITS

As At December 31, 2006

	2006	2005
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,724,839	$ 5,030,889
Contributions receivable (Note 6)	16,747	17,209
Accrued investment income and accounts receivable	1,646	1,871
	5,743,232	5,049,969
Liabilities		
Accounts payable	1,208	2,673
Net assets available for benefits	5,742,024	5,047,296
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	5,589,000	5,235,000
Surplus (Deficiency)	$ 153,024	$ (187,704)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in assets		
Net investment income (Note 8)	$ 708,172	$ 547,584
Contributions		
Current and optional service		
Employers	121,768	114,390
Employees	124,671	116,236
Transfers from other plans	7,018	5,374
	961,629	783,584
Decrease in assets		
Pension benefits	190,772	178,762
Refunds to members	41,448	29,270
Transfers to other plans	27,052	2,113
Plan expenses (Note 9)	7,629	7,075
	266,901	217,220
Increase in net assets	694,728	566,364
Net assets available for benefits at beginning of year	5,047,296	4,480,932
Net assets available for benefits at end of year	$ 5,742,024	$ 5,047,296

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

PUBLIC SERVICE PENSION PLAN

STATEMENT OF CHANGES IN LIABILITY FOR ACCRUED BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 367,000	$ 344,000
Benefits earned	198,000	184,000
Actuarial assumption changes	50,000	-
	615,000	528,000
Decrease in liability for accrued benefits		
Benefits paid	259,000	210,000
Net experience gains	2,000	14,000
	261,000	224,000
Net increase in liability for accrued benefits	354,000	304,000
Liability for accrued benefits at beginning of year	5,235,000	4,931,000
Liability for accrued benefits at end of year	$ 5,589,000	$ 5,235,000

STATEMENT OF CHANGES OF SURPLUS (DEFICIENCY)

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
(Deficiency) at beginning of year	$ (187,704)	$ (450,068)
Increase in net assets available for benefits	694,728	566,364
Net increase in liability for accrued benefits	(354,000)	(304,000)
Surplus (Deficiency) at end of year (Note 10)	$ 153,024	$ (187,704)

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

PUBLIC SERVICE PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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, 2006 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 were reviewed by the Board in 2006 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, 2007 as follows: 6.69% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.55% of the excess for employees. Employers provide matching contributions.

(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 for all earned service, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being 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.

PUBLIC SERVICE PENSION PLAN

Note 1 (continued)

(e) Disability Benefits

Unreduced pensions may be payable to members who become totally disabled and have at least two years of service. Reduced pensions may be payable to members who become partially disabled and have at least two years of service.

(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.

PUBLIC SERVICE PENSION PLAN

Note 2 (continued)

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 and private investment 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.

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 cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

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, cross-currency interest rate swaps and swap option contracts. 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 and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

Forward foreign exchange contracts and equity index future 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.

PUBLIC SERVICE PENSION PLAN

Note 2 (continued)

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

Gains and losses on derivative 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)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 44,141	0.8	$ 46,273	0.9
Canadian Dollar Public Bond Pool (b)	1,139,437	19.9	1,083,152	21.6
Real rate of return bonds (c)	293,721	5.1	290,580	5.8
Private Mortgage Pool (d)	194,424	3.4	196,753	3.9
External Managers Currency Alpha Pool (e)	14,071	0.3	6,728	0.1
Total fixed income securities	1,685,794	29.5	1,623,486	32.3
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	349,554	6.1	424,626	8.4
Canadian Pooled Equities Fund (g)	241,200	4.2	256,721	5.1
External Managers				
Canadian Equity Enhanced Index Pool (h)	115,828	2.0	121,381	2.4
Canadian Large Cap Equity Pool (i)	74,380	1.3	100,121	2.0
Canadian Multi-Cap Pool (j)	98,168	1.7	63,479	1.3
Growing Equity Income Pool (k)	50,691	0.9	55,697	1.1
Tactical Asset Allocation Pool (o)	(79,461)	(1.4)	(54,895)	(1.1)
	850,360	14.8	967,130	19.2
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	848,443	14.8	736,068	14.6
Portable Alpha U.S. Transfer Pool (m)	212,821	3.7	71,958	1.4
External Managers				
U.S. Mid/Small Cap Equity Pool (n)	136,155	2.4	118,787	2.4
Tactical Asset Allocation Pool (o)	99,208	1.8	68,575	1.4
Growing Equity Income Pool (k)	16,576	0.3	13,968	0.3
	1,313,203	23.0	1,009,356	20.1
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	902,776	15.8	840,567	16.7
Emerging Markets Equity Pool (q)	187,218	3.2	61,868	1.2
EAFE Structured Equity Pooled Fund (r)	113,745	2.0	129,030	2.6
	1,203,739	21.0	1,031,465	20.5
Alternative Investments - Equities				
Private Equity and and Private Income Pools (s)	94,509	1.6	41,663	0.8
External Managers				
Absolute Return Strategy Pool (t)	86,293	1.5	-	-
Collaterized Commodity Futures Pool (u)	86,182	1.5	-	-
Timberland Pool (v)	20,590	0.4	21,350	0.4
	287,574	5.0	63,013	1.2
Real Estate Equities (Schedule E)				
Private Real Estate Pool (w)	384,169	6.7	336,439	6.7
Total equities	4,039,045	70.5	3,407,403	67.7
Total investments	$ 5,724,839	100.0	$ 5,030,889	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 U.S. companies that exhibit attractive valuation, growth and financial characteristics.

(l) The U.S. Structured Equity Pool 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 Total Return 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.

(m) The Portable Alpha U.S. Transfer 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 Total Return Index over the long term.

(n) The External Managers U.S. 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 U.S. 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.

(o) The Tactical Asset Allocation 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. 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.

(s) The Private Equity Pools 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 Pools are managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6% over the long term. The pools invest in infrastructure related projects that are structured to provide high current income.

PUBLIC SERVICE PENSION PLAN

Note 3 (continued)

(t) The External Managers Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 6%. The pool is intended to yield absolute positive investment returns with low volatility using various investment strategies.

(u) The Collateralized Commodity Futures Pool is a passively managed pool with the objective of providing an investment return comparable to the Goldman Sachs Commodity Total Return Index (GSCI). Exposure to the GSCI benchmark is obtained through the use of swaps, futures and other structured investments which are supported by floating rate fixed income instruments.

(v) 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.

(w) 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 26.5% fixed income instruments and 73.5% 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. Generally there are underlying securities supporting all swaps and 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.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate with a specified period of time.

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, 2006:

	2006					2005	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
		%			($ thousands)		
Equity index swap contracts	77	23	-	$ 1,329,838	$ 39,854	$ 1,218,829	$ 26,686
Swap option contracts	73	9	18	1,053,483	(769)	-	-
Interest rate swap contracts	9	50	41	937,597	(619)	382,106	6,596
Credit default swap contracts	3	18	79	621,103	822	130,472	1,229
Forward foreign exchange contracts	100	-	-	608,598	(3,071)	270,228	(337)
Equity index futures contracts	100	-	-	405,147	12,756	271,099	4,254
Cross-currency interest rate swap contracts	20	34	46	376,255	12,074	315,836	18,858
Bond index swap contracts	100	-	-	322,604	1,373	60,147	1,647
Commodity index swaps	100	-	-	85,995	(24)	-	-
				$ 5,740,620	$ 62,396	$ 2,648,717	$ 58,933

(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 favorable 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

	2006	2005
	($ thousands)	
Employers	$ 8,346	$ 8,589
Employees	8,401	8,620
	$ 16,747	$ 17,209

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2005 by Aon Consulting Inc. and was then extrapolated to December 31, 2006. The 2005 valuation was completed after the financial statements of the Plan for 2005 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2005 are accounted for as actuarial assumptions changes and net experience gains in 2006.

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:

	December 31	
	2005 Valuation and 2006 Extrapolation	2002 Valuation and 2005 Extrapolation
	%	
Investment rate of return	7.00	7.00
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75

* 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.

PUBLIC SERVICE PENSION PLAN

Note 7 (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, 2006:

	Sensitivities		
	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%	$ 337	0.54%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	270	1.03%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	878	2.26%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2005 valuation was 11.52%.

NOTE 8 NET INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	2006	2005
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 513,707	$ 376,594
Interest income	134,642	122,531
Dividend income	52,689	40,320
Real estate operating income	17,590	15,349
Securities lending income	1,660	1,401
Pooled funds management and associated custodial fees	(12,116)	(8,611)
	$ 708,172	$ 547,584

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:

	2006	2005
	($ thousands)	
Fixed Income Securities	$ 59,507	$ 125,249
Canadian Equities	151,650	207,533
Foreign Equities		
United States	158,859	15,448
Non-North American	267,899	119,225
Alternative Investments - Equities	998	3,394
Real Estate Equities	69,259	76,735
	$ 708,172	$ 547,584

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	14.0%	12.8%	7.5%
Policy Benchmark**	13.2%	12.0%	6.7%

* 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

	2006	2005
	($ thousands)	
General administration costs	$ 6,360	$ 5,794
Investment management costs	754	725
Board costs	321	342
Actuarial fees	103	75
Other professional fees	91	139
	$ 7,629	$ 7,075

General administration and Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

PUBLIC SERVICE PENSION PLAN

Note 9 (continued)

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

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 2006, total Plan expenses of $7,629,000 amounted to $110 per member (2005 $106 per member).

NOTE 10 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However 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 $5,186 million at December 31, 2006 (2005 $4,782 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totalling 2.92% of pensionable earnings shared equally between employees and employers until December 31, 2020. The special payments have been included in the rates in effect at December 31, 2006 (see Note 1(b)).

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2006 presentation.

NOTE 12 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 Public Service Pension Board.

PUBLIC SERVICE PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$ 61,785	$ 65,269
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	580,766	583,721
Provincial		
Alberta, direct and guaranteed	433	565
Other, direct and guaranteed	183,132	225,706
Municipal	538	6,073
Corporate	846,053	728,384
	1,610,922	1,544,449
Receivable from sale of investments and accrued investment income	14,506	13,926
Liabilities for investment purchases	(1,419)	(158)
	13,087	13,768
	$ 1,685,794	$ 1,623,486

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 4.84% per annum (2005 3.96% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount:

	2006	2005
	%	
under 1 year	2	2
1 to 5 years	27	27
6 to 10 years	31	30
11 to 20 years	16	17
over 20 years	24	24
	100	100

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2006

	Plan's Share 2006	2005
	($ thousands)	
Deposits and short-term securities	$ 4,052	$ 7,502
Public equities (a) (b)		
Consumer discretionary	47,301	56,112
Consumer staples	26,150	34,201
Energy	219,860	253,067
Financials	265,415	298,161
Health care	6,538	11,102
Industrials	44,035	56,253
Information technology	38,254	39,879
Materials	127,299	138,335
Telecommunication services	46,411	47,976
Utilities	8,400	10,419
	829,663	945,505
Passive index	-	150
	829,663	945,655
Receivable from sale of investments and accrued investment income	17,413	26,087
Liabilities for investment purchases	(768)	(12,114)
	16,645	13,973
	$ 850,360	$ 967,130

(a) Reflects the Plan's effective investments in Canadian public equities, after taking into account the Plan's proportionate share of Canadian equity index swaps and futures contracts held by pooled funds (see Note 5).

(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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 23,768	$ 20,577
Public equities (a) (b)		
Consumer discretionary	141,054	106,721
Consumer staples	110,475	85,593
Energy	120,372	88,431
Financials	286,877	210,548
Health care	155,653	130,466
Industrials	148,016	115,496
Information technology	195,680	146,101
Materials	42,094	34,991
Telecommunication services	41,007	26,118
Utilities	46,112	33,850
	1,287,340	978,315
Passive index	489	741
	1,287,829	979,056
Receivable from sale of investments and accrued investment income	4,269	26,781
Liabilities for investment purchases	(2,663)	(17,058)
	1,606	9,723
	$ 1,313,203	$ 1,009,356

(a) Reflects the Plan's effective investments in United States public equities, after taking into account the Plan's proportionate share of U.S. equity index swaps and futures contracts held by pooled funds (see Note 5).

(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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 24,096	$ 3,691
Public equities (a) (b)		
Consumer discretionary	142,355	116,678
Consumer staples	65,485	67,688
Energy	80,369	75,463
Financials	323,184	277,221
Health care	72,758	79,445
Industrials	146,216	126,929
Information technology	72,094	67,106
Materials	83,263	77,983
Telecommunication services	69,703	64,015
Utilities	53,426	41,375
	1,108,853	993,903
Passive index	76,826	30,731
Receivable from sale of investments and accrued investment income	14,160	10,634
Liabilities for investment purchases	(20,196)	(7,494)
	(6,036)	3,140
	$ 1,203,739	$ 1,031,465

(a) Reflects the Plan's effective investments in Non-North American public equities, after taking into account the Plan's proportionate share of Non-North American equity index swaps and futures contracts held by pooled funds (see Note 5).

(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 the stock exchange on which stocks were purchased:

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
United Kingdom	$ 239,610	$ 198,950
Japan	203,515	221,878
France	115,451	101,753
Germany	78,551	58,725
Netherlands	60,673	53,369
Switzerland	59,831	74,790
Spain	42,559	27,000
Italy	36,537	31,177
Australia	31,950	38,235
Korea	24,241	23,964
Other	215,935	164,062
	$ 1,108,853	$ 993,903

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 198	$ 43
Real estate (a)		
Office	190,517	167,681
Retail	112,563	111,835
Industrial	48,798	33,431
Residential	18,563	15,343
	370,441	328,290
Passive index	13,285	7,403
Receivable from sale of investments and accrued investment income	245	703
	$ 384,169	$ 336,439

(a) The following is a summary of the Plan's investments in real estate by geographic locations:

	Plan's Share	
	2006	**2005**
	($ thousands)	
Ontario	$ 212,438	$ 203,629
Alberta	115,785	89,186
Quebec	34,994	29,298
British Columbia	7,224	6,177
	$ 370,441	$ 328,290

SPECIAL FORCES PENSION PLAN

Financial Statements

December 31, 2006

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, 2006, 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, 2006 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Surplus (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 16, 2007

SPECIAL FORCES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2006

	2006	2005
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,464,816	$ 1,288,233
Accounts receivable (Note 6)	2,953	2,782
	1,467,769	1,291,015
Liabilities		
Accounts payable	509	25
Net assets available for benefits	1,467,260	1,290,990
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,424,137	1,353,848
Indexing Fund	9,849	4,485
	1,433,986	1,358,333
Surplus (Deficiency)		
Plan Fund *	33,274	(67,343)
Indexing Fund	-	-
	$ 33,274	$ (67,343)

* The Plan Fund surplus is comprised of a pre-1992 deficiency of $25,135,000 (2005 $79,799,000) and a post-1991 surplus of $58,409,000 (2005 $12,456,000).

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

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2006

	2006			2005
	Plan Fund	Indexing Fund	Total	Total
		($ thousands)		
Increase in assets				
Net investment income (Note 8)	$ 185,033	$ 3,154	$ 188,187	$ 139,929
Contributions (Note 9)	49,001	3,440	52,441	51,451
	234,034	6,594	240,628	191,380
Decrease in assets				
Pension benefits	58,744	-	58,744	53,370
Refunds and transfers	4,364	-	4,364	2,299
Administration expenses (Note 10)	1,250	-	1,250	1,373
	64,358	-	64,358	57,042
Increase in net assets before transfer	169,676	6,594	176,270	134,338
Transfer from the Indexing Fund to the Plan Fund (Note 12)	1,230	(1,230)	-	-
Increase in net assets after transfer	170,906	5,364	176,270	134,338
Net assets available for benefits at beginning of year	1,286,505	4,485	1,290,990	1,156,652
Net assets available for benefits at end of year	$ 1,457,411	$ 9,849	$ 1,467,260	$ 1,290,990

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

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2006

	2006			2005
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$ 53,047	$ 40,860	$ 93,907	$ 89,443
Benefits earned	242	37,917	38,159	37,192
Cost-of-living indexing adjustments and interest	1,077	5,618	6,695	483
	54,366	84,395	138,761	127,118
Decrease in accrued benefits				
Benefits, transfers and interest	49,472	13,636	63,108	55,669
Net experience gains	-	-	-	70,463
Changes in actuarial assumptions	-	-	-	7,658
	49,472	13,636	63,108	133,790
Net increase (decrease) in accrued benefits	4,894	70,759	75,653	(6,672)
Accrued benefits at beginning of year	782,052	576,281	1,358,333	1,365,005
Accrued benefits at end of year	$ 786,946	$ 647,040	$ 1,433,986	$ 1,358,333

STATEMENT OF CHANGES IN SURPLUS (DEFICIENCY)

For the Year Ended December 31, 2006

	2006			2005
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
(Deficiency) Surplus at beginning of year	$ (79,799)	$ 12,456	$ (67,343)	$ (208,353)
Increase in net assets available for benefits	59,558	111,348	170,906	134,338
Net (increase) decrease in accrued benefits	(4,894)	(65,395)	(70,289)	6,672
Surplus (Deficiency) at end of year (Note 13)	$ (25,135)	$ 58,409	$ 33,274	$ (67,343)

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

SPECIAL FORCES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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 (see Note 13) 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, 2006 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, 2006 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, 2006 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 least five years of service, or have at least 25 years of service. Pensions will be reduced at the age of

SPECIAL FORCES PENSION PLAN

Note 1 (continued)

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, guaranteed for a five-year period, 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 may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be 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, or a lump sum payment. 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, and with respect to pre-1992 service, there are additional benefits for dependent minor children.

(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 commuted value for all service, or all contributions made by the member to the Plan.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

SPECIAL FORCES PENSION PLAN

Note 1 (continued)

For post-1991 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund (see Note 12).

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 and private investments is estimated by Alberta Finance or external managers appointed by Alberta Finance using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models.

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 cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

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, cross-currency interest rate swaps and swap option contracts. 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 and cross currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

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.

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

Gains and losses on derivative 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)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,241	0.6	$ 5,390	0.4
Canadian Dollar Public Bond Pool (b)	285,177	19.5	317,704	24.7
Canadian Long Term Government Bond Pool (b)	106,840	7.3	31,700	2.5
Private Mortgage Pool (c)	62,581	4.3	63,331	4.9
Real rate of return bonds (d)	23,633	1.6	22,468	1.7
External Managers Currency Alpha Pool (e)	3,598	0.2	1,888	0.2
Total fixed income securities	490,070	33.5	442,481	34.4
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	85,276	5.8	95,880	7.4
External Managers				
Canadian Small Cap Equity Pool (g)	34,433	2.4	36,675	2.8
Canadian Equity Enhanced Index Pool (h)	29,362	2.0	27,282	2.1
Canadian Large Cap Equity Pool (g)	18,674	1.3	20,208	1.6
Canadian Pooled Equities Fund (i)	57,883	4.0	57,733	4.5
Canadian Multi-Cap Pool (j)	23,535	1.6	15,802	1.2
Growing Equity Income Pool (k)	12,421	0.8	12,705	1.0
Private Equity Pool	3,817	0.3	1,207	0.1
Tactical Asset Allocation Pool (o)	(20,326)	(1.4)	(14,183)	(1.1)
	245,075	16.8	253,309	19.6
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	192,240	13.1	162,640	12.6
External Managers				
U.S. Mid/Small Cap Equity Pool (m)	44,567	3.0	36,316	2.8
Portable Alpha U.S. Transfer Pool (n)	43,701	3.0	18,764	1.5
Tactical Asset Allocation Pool (o)	25,378	1.7	17,717	1.4
Growing Equity Income Pool (k)	4,062	0.3	3,186	0.2
	309,948	21.1	238,623	18.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	243,051	16.6	194,599	15.1
Emerging Markets Equity Pool (q)	16,433	1.1	16,166	1.3
EAFE Passive Equity Pool (r)	460	-	757	0.1
EAFE Structured Equity Pooled Fund (r)	35,617	2.4	44,203	3.4
	295,561	20.1	255,725	19.9
Alternative Investments - Equities				
Private Income Pool (s)	16,024	1.1	6,846	0.5
Timberland Pool (t)	5,339	0.4	5,536	0.4
	21,363	1.5	12,382	0.9
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	102,799	7.0	85,713	6.7
Total equities	974,746	66.5	845,752	65.6
Total investments	$ 1,464,816	100.0	$ 1,288,233	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 U.S. companies that exhibit attractive valuation, growth and financial characteristics.

(l) The U.S. Structured Equity Pool 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.

(m) The External Managers U.S. 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 U.S. 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 U.S. Transfer 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 Tactical Asset Allocation 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. 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 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

SPECIAL FORCES PENSION PLAN

Note 3 (continued)

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).

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.

SPECIAL FORCES 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. Generally there are underlying securities supporting all swaps and 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.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

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, 2006:

	2006					2005	
	Maturity						
	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	-	$ 312,455	9,656	$ 279,467	$ 6,416
Swap option contracts	73	9	18	263,665	(192)	-	-
Interest rate swap contracts	9	50	41	231,639	(141)	88,946	1,670
Credit default swap contracts	3	18	79	154,233	195	30,561	287
Forward foreign exchange contracts	100	-	-	126,433	(299)	71,504	(155)
Equity index futures contracts	100	-	-	102,679	3,213	66,479	951
Cross-currency interest rate swap contracts	18	33	49	84,827	2,711	75,832	4,843
Bond index swap contracts	100	-	-	80,624	330	16,492	403
				$ 1,356,555	$ 15,473	$ 629,281	$ 14,415

(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

	2006	2005
	($ thousands)	
Contributions receivable		
Employers	$ 1,284	$ 1,236
Employees	1,182	1,135
Province of Alberta	230	224
	2,696	2,595
Receivable from Alberta Pensions Administration Corporation	119	137
Receivable from sale of investments and accrued investment income	138	50
	$ 2,953	$ 2,782

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, 2006.

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	
	2006 Extrapolation	2004 Valuation and 2005 Extrapolation
	%	
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75

* 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, 2006:

	2006			2005
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 761,811	$ 695,600	$ 1,457,411	$ 1,286,505
Plan Fund accrued benefits	786,946	637,191	1,424,137	1,353,848
Plan Fund Surplus (Deficiency) (Note 13)	$ (25,135)	$ 58,409	$ 33,274	$ (67,343)

As at December 31, 2006, the Indexing Fund held investments of $9,849,000 (2005 $4,485,000) 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, 2006:

	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%	$ 82	0.0%	**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	37	1.8%	
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	206	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:

	2006	2005
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 138,764	$ 94,993
Interest income	34,300	32,661
Dividend income	12,824	10,523
Real estate operating income	4,522	3,523
Securities lending income	435	336
Pooled funds management and associated custodial fees	(2,658)	(2,107)
	$ 188,187	$ 139,929

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed Income Securities	$ 21,738	$ 31,861
Canadian Equities	43,714	55,705
Foreign Equities		
United States	38,042	3,853
Non-North American	64,005	29,881
Alternative Investments - Equities	2,462	692
Real Estate Equities	18,226	17,937
	$ 188,187	$ 139,929

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	14.6%	12.3%	7.8%
Policy Benchmark**	13.8%	11.6%	6.9%

* 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

	2006	2005
	($ thousands)	
Current and optional service		
Employers	$ 22,760	$ 22,214
Employees	20,884	20,557
Unfunded liability		
Employers	2,775	2,721
Employees	2,775	2,721
Province of Alberta	2,866	2,788
Transfers from other plans	381	450
	$ 52,441	$ 51,451

NOTE 10 ADMINISTRATION EXPENSES

	2006	2005
	($ thousands)	
General administration costs	$ 994	$ 1,042
Investment management costs	240	237
Actuarial fees	16	94
	$ 1,250	$ 1,373

Total administration expenses amounted to $241 per member (2005 $279 per member).

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

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).

SPECIAL FORCES PENSION PLAN

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 April 1, 2006		
Up to 4 hours	$ 181	$ 135
4 to 8 hours	309	224
Over 8 hours	492	350

	2006	2005
During 2006, the following amounts were paid:		
Remuneration		
Chair	$ 2,528	$ 2,730
Members (5)	14,654	14,765
Travel expenses		
Chair	2,879	8,997
Members (5)	12,985	22,588

NOTE 12 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

Transfer from the Indexing Fund to the Plan Fund is approved by the Board based on the Plan actuary's advice to finance the payment of cost-of-living increases for post-1991 service by the Plan Fund (see Note 1(i)).

As at December 31, 2006, cost-of-living increases for post-1991 service have been granted at 60% of the increase in the Alberta Consumer Price Index from January 1, 1992 to December 31, 2000.

NOTE 13 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However 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 $1,561 million at December 31, 2006 (2005 $1,228 million).

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totaling 1.86% of pensionable salary shared equally between employees and employers until December 31, 2019. The special payment is included in the rates in effect at December 31, 2006 (see Note 1(b)).

SPECIAL FORCES PENSION PLAN

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2006 presentation.

NOTE 15 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 Special Forces Pension Board.

SPECIAL FORCES PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 12,827	$ 10,899
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	120,397	119,614
Provincial		
Alberta, direct and guaranteed	108	166
Other, direct and guaranteed	109,546	84,556
Municipal	691	1,940
Corporate	242,336	221,004
	473,078	427,280
Receivable from sale of investments and accrued investment income	4,563	4,346
Liabilities for investment purchases	(398)	(44)
	4,165	4,302
	$ 490,070	$ 442,481

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 5.28% per annum (2005 4.38% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount.

	2006	2005
	%	
under 1 year	2	2
1 to 5 years	23	27
6 to 10 years	30	32
11 to 20 years	13	14
over 20 years	32	25
	100	100

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 1,503	$ 2,191
Public equities (a) (b)		
Consumer discretionary	13,997	16,216
Consumer staples	7,634	9,657
Energy	60,162	65,233
Financials	69,504	70,985
Health care	2,042	2,817
Industrials	18,910	20,092
Information technology	10,818	11,017
Materials	38,283	36,244
Telecommunication services	11,505	10,871
Utilities	2,317	2,687
	235,172	245,819
Passive index	579	695
	235,751	246,514
Private Equity Pool	3,817	1,207
Receivable from sale of investments and accrued investment income	4,362	6,247
Liabilities for investment purchases	(358)	(2,850)
	4,004	3,397
	$ 245,075	$ 253,309

(a) Reflects the Plan's effective investments in Canadian public equities, after taking into account the Plan's proportionate share of Canadian equity index swaps and futures contracts held by pooled funds (see Note 5).

(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, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$ 6,432	$ 5,561
Public equities (a) (b)		
Consumer discretionary	33,633	25,336
Consumer staples	25,196	19,646
Energy	27,786	20,763
Financials	67,130	49,420
Health care	36,931	30,934
Industrials	35,583	27,605
Information technology	46,361	34,553
Materials	10,316	8,723
Telecommunication services	9,315	5,967
Utilities	10,819	8,035
	303,070	230,982
Passive index	160	227
	303,230	231,209
Receivable from sale of investments and accrued investment income	1,031	5,683
Liabilities for investment purchases	(745)	(3,830)
	286	1,853
	$ 309,948	$ 238,623

(a) Reflects the Plan's effective investments in United States public equities, after taking into account the Plan's proportionate share of U.S. equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) 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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 6,058	$ 1,202
Public equities (a) (b)		
Consumer discretionary	36,435	28,970
Consumer staples	18,035	16,794
Energy	20,143	18,739
Financials	82,033	68,562
Health care	19,957	19,534
Industrials	38,573	31,058
Information technology	18,713	16,450
Materials	20,296	19,363
Telecommunication services	17,949	15,683
Utilities	13,167	10,348
	285,301	245,501
Passive index	6,743	8,030
Receivable from sale of investments and accrued investment income	3,488	3,258
Liabilities for investment purchases	(6,029)	(2,266)
	(2,541)	992
	$ 295,561	$ 255,725

(a) Reflects the Plan's effective investments in Non-North American public equities, after taking into account the Plan's proportionate share of Non-North American equity index swaps contracts held by pooled funds (see Note 5).

(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 2006	Plan's Share 2005
	($ thousands)	
United Kingdom	$ 61,205	$ 49,633
Japan	55,969	55,087
France	31,584	24,899
Germany	21,534	14,577
Netherlands	16,537	13,023
Switzerland	16,438	18,336
Spain	11,668	6,787
Italy	10,038	7,767
Australia	8,889	9,611
Sweden	5,681	5,323
Other	45,758	40,458
	$ 285,301	$ 245,501

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 53	$ 11
Real estate (a)		
Office	50,980	42,719
Retail	30,121	28,492
Industrial	13,058	8,517
Residential	4,967	3,909
	99,126	83,637
Passive index	3,555	1,886
Receivable from sale of investments and accrued investment income	65	179
	$ 102,799	$ 85,713

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Ontario	$ 56,846	$ 51,878
Alberta	30,983	22,721
Quebec	9,364	7,464
British Columbia	1,933	1,574
	$ 99,126	$ 83,637

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

December 31, 2006

AUDITOR GENERAL
Alberta

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, 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 of the Plan as at December 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]

Edmonton, Alberta — Fred J. Dunn, FCA

May 18, 2007 — Auditor General

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As At December 31, 2006

	2006	2005
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 7,247	$ 5,975
Refundable income tax (Note 1(f) and Note 6)	9,404	7,431
Contributions receivable	14	20
Other receivables	116	-
	16,781	13,426
Liabilities		
Income tax payable	304	266
Other payables	3	115
	307	381
Net assets available for benefits	16,474	13,045
Actuarial value of accrued benefits (Note 7)	(40,146)	(25,857)
SRP Reserve Fund (Note 8)	27,370	22,830
Surplus	$ 3,698	$ 10,018

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in assets		
Contributions		
Employees	$ 1,913	$ 1,974
Employers	1,913	1,974
Net investment income (Note 9)	276	468
	4,102	4,416
Decrease in assets		
Benefits and refunds	(406)	(230)
Administration expenses (Note 10)	(267)	(463)
	(673)	(693)
Increase in net assets	3,429	3,723
Net assets available for benefits at beginning of year	13,045	9,322
Net assets available for benefits at end of year	$ 16,474	$ 13,045

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

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06).

(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. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service 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, 2006 were unchanged at 10.5% 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 m*aximum pensionable salary limit* under the *Income Tax Act* for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

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, cross-currency interest rate swaps and swap option contracts. 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 and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

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.

Swap option contracts are valued at quoted prices based on discounted cash flows using current market yields and calculated default probabilities.

Gains and losses on derivative 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 actuarial assumption 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 (SCHEDULE A)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 423	5.8	$ 1,955	32.7
Canadian Dollar Public Bond Pool (b)	5,348	73.8	2,552	42.7
Real rate of return bonds (c)	1,476	20.4	-	-
Total fixed income securities	7,247	100.0	4,507	75.4
Equities				
Canadian Equities				
Canadian Pooled Equities Fund	-	-	1,147	19.2
Growing Equity Income Pool	-	-	257	4.3
	-	-	1,404	23.5
United States Equities				
Growing Equity Income Pool	-	-	64	1.1
Total equities	-	-	1,468	24.6
Total investments	$ 7,247	100.0	$ 5,975	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) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

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 Minister has established a long-term

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Note 4 (continued)

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. Generally there are underlying securities supporting all swaps and 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.

Swap option contracts include the right but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

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, 2006:

	2006					2005	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
		%			($ thousands)		
Swap option contracts	73	10	17	$ 4,945	$ (4)	$ -	$ -
Interest rate swap contracts	-	56	44	3,396	4	-	-
Credit default swap contracts	-	15	85	2,580	2	52	-
Bond index swap contracts	100	-	-	1,471	1	94	1
Cross-currency interest rate swaps	2	11	87	236	(1)	127	5
Forward foreign exchange contracts	100	-	-	94	(3)	80	1
Equity index futures contracts	-	-	-	-	-	15	2
				$ 12,722	$ (1)	$ 368	$ 9

(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.

	2006	2005
	($ thousands)	
Refundable income tax at beginning of year	$ 7,431	$ 5,405
Tax on employees and employers contributions received	1,916	1,972
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	57	54
Refundable income tax at end of year	$ 9,404	$ 7,431

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, 2005 by Aon Consulting Inc. and was then extrapolated to December 31, 2006. The 2005 valuation was completed after the financial statements of the Plan for 2005 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2005 are accounted for as net experience losses and actuarial assumption changes in 2006.

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:

	2005 Valuation and 2006 Extrapolation	2002 Valuation and 2005 Extrapolation
	%	
Discount rate *	4.50	4.50
Inflation rate	2.75	3.00
Investment rate of return	6.00	6.00
Salary escalation rate **	3.25	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:

	2006	2005
	($ thousands)	
Actuarial value of accrued benefits at beginning of year	$ 25,857	$ 19,434
Interest accrued on benefits	1,608	997
Benefits earned	6,016	5,656
Net experience losses	8,273	-
Changes in actuarial assumptions	(1,202)	-
Benefits and refunds	(406)	(230)
Actuarial value of accrued benefits at end of year	$ 40,146	$ 25,857

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, 2006:

	Sensitivities		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	($ millions)	
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 3.1	$ 0.4
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	16.3	5.5
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	8.9	1.6

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 8).

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, 2006, as recommended by the Plan's actuary, was unchanged at 5.8% 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, 2006, the SRP Reserve Fund had net assets with fair value totalling $27,370,000 (2005 $22,830,000), comprising $27,271,000 (2005 $22,724,000) in portfolio investments and $99,000 (2005 $106,000) in receivables. The increase during the year of $4,540,000 $ (2005 $3,314,000) is attributed to contributions from employers of $1,079,000 (2005 $1,123,000) and investment income of $3,461,000 (2005 $2,191,000).

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 9 NET INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	2006	2005
	($ thousands)	
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ (54)	$ 294
Interest income	331	153
Dividend income	-	23
Pool funds management and associated custodial fees	(1)	(2)
	$ 276	$ 468

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed Income Securities	$ 235	$ 173
Equities	41	295
	$ 276	$ 468

NOTE 10 ADMINISTRATION EXPENSES

Administration expenses including investment management costs in the amount of $26,000 (2005 $21,000) were charged to the Plan on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

Administration expenses amounted to $203 (2005 $375) per member.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2006 presentation.

NOTE 12 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 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, 2006

	Plan's Share 2006	Plan's Share 2005
	($ thousands)	
Deposits and short-term securities	$ 447	$ 1,984
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	2,823	691
Provincial		
Alberta, direct and guaranteed	2	1
Other, direct and guaranteed	805	506
Municipal	3	14
Corporate, public and private	3,118	1,281
	6,751	2,493
Receivable from sale of investments and accrued investment income	55	30
Liabilities for investment purchases	(6)	-
	49	30
	$ 7,247	$ 4,507

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 3.98% per annum (2005 4.47% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount:

	2006	2005
	%	
under 1 year	1	3
1 to 5 years	29	34
6 to 10 years	27	31
11 to 20 years	18	12
over 20 years	25	20
	100	100

Alphabetical List of Entities' Financial Statements In Ministry 2006-07 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 and Technology
Agriculture Financial Services Corporation	Agriculture and Food
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Cancer Prevention Legacy Fund [2]	Finance
Alberta Capital Finance Authority	Finance
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Tourism, Parks, Recreation and Culture
Alberta Gaming and Liquor Commission	Solicitor General and Public Security
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	Tourism, Parks, Recreation and Culture
Alberta Insurance Council	Finance
Alberta Local Authorities Pension Plan Corporation [3]	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Advanced Education and Technology
Alberta Risk Management Fund	Finance
Alberta School Foundation Fund	Education
Alberta Securities Commission	Finance
Alberta Social Housing Corporation	Municipal Affairs and Housing
Alberta Sport, Recreation, Parks and Wildlife Foundation	Tourism, Parks, Recreation and Culture
Alberta Treasury Branches	Finance
ATB Insurance Advisors Inc. [4]	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	
C-FER Technologies (1999) Inc.	Advanced Education and Technology
Credit Union Deposit Guarantee Corporation	Finance

1 Established July 10, 2005.
2 Proclaimed May 31, 2006.
3 Incorporated December 16, 2005.
4 Incorporated July 12, 2006.

Entities Included in the Consolidated Government Reporting Entity

Ministry, Department, Fund or Agency	Ministry Annual Report
Colleges:	Advanced Education and Technology
Alberta College of Art and Design	
Bow Valley College	
Grande Prairie Regional College	
Grant MacEwan College	
Keyano College	
Lakeland College	
Lethbridge Community College	
Medicine Hat College	
Mount Royal College	
NorQuest College	
Northern Lakes College	
Olds College	
Portage College	
Red Deer College	
Department of Advanced Education and Technology	Advanced Education and Technology
Department of Agriculture and Food	Agriculture and Food
Department of Children's Services	Children's Services
Department of Education	Education
Department of Energy	Energy
Department of Finance	Finance
Department of Health and Wellness	Health and Wellness
Department of Municipal Affairs and Housing	Municipal Affairs and Housing
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
Department of Tourism, Parks, Recreation and Culture	Tourism, Parks, Recreation and Culture
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation	Tourism, Parks, Recreation and Culture
Historic Resources Fund	Tourism, Parks, Recreation and Culture
Human Rights, Citizenship and Multiculturalism Education Fund	Tourism, Parks, Recreation and Culture
iCORE Inc.	Advanced Education and Technology
Lottery Fund	Solicitor General and Public Security
Ministry of Advanced Education and Technology	Advanced Education and Technology
Ministry of Agriculture and Food	Agriculture and Food
Ministry of Children's Services	Children's Services
Ministry of Education	Education
Ministry of Employment, Immigration and Industry [5]	Employment, Immigration and Industry
Ministry of Energy	Energy
Ministry of Environment [5]	Environment
Ministry of Executive Council [5]	Executive Council
Ministry of Finance	Finance
Ministry of Health and Wellness	Health and Wellness
Ministry of Infrastructure and Transportation [5]	Infrastructure and Transportation
Ministry of International, Intergovernmental and Aboriginal Relations [5]	International, Intergovernmental and Aboriginal
Ministry of Justice [5]	Justice
Ministry of Municipal Affairs and Housing	Municipal Affairs and Housing

5 Ministry includes only the departments so separate departmental financial statements are not necessary.

Entities Included in the Consolidated Government Reporting Entity

Ministry, Department, Fund or Agency	Ministry Annual Report
Ministry of Seniors and Community Supports	Seniors and Community Supports
Ministry of Service Alberta [5]	Service Alberta
Ministry of Solicitor General and Public Security	Solicitor General and Public Security
Ministry of Sustainable Resource Development	Sustainable Resource Development
Ministry of Tourism, Parks, Recreation and Culture	Tourism, Parks, Recreation and Culture
Ministry of the Treasury Board [5]	Treasury Board
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development
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 [6]	Seniors and Community Supports
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Regional Health Authorities and Provincial Health Boards:	Health and Wellness
Alberta Cancer Board	
Alberta Mental Health Board	
Aspen Regional Health Authority	
Calgary Health Region	
Capital Health	
Chinook Regional Health Authority	
David Thompson Regional Health Authority	
East Central Health	
Health Quality Council of Alberta [7]	
Northern Lights Health Region	
Peace Country Health	
Palliser Health Region	
Safety Codes Council	Municipal Affairs and Housing
School Boards and Charter Schools:	Education
Almadina School Society	
Aspen View Regional Division No. 19	
Aurora School Ltd.	
Battle River Regional Division No. 31	
Black Gold Regional Division No. 18	
Boyle Street Education Centre	
Buffalo Trail Public Schools Regional Division No. 28	
Calgary Arts Academy Society	
Calgary Girls' School Society	
Calgary Roman Catholic Separate School District No. 1	
Calgary School District No. 19	
Calgary Science School Society	
Canadian Rockies Regional Division No. 12	
CAPE-Centre for Academic and Personal Excellence Institute	
Chinook's Edge School Division No. 73	

5 Ministry includes only the departments so separate departmental financial statements are not necessary.
6 Ceased operations June 30, 2006.
7 Established July 1, 2006.

Entities Included in the Consolidated Government Reporting Entity

Ministry, Department, Fund or Agency	Ministry Annual Report
Christ the Redeemer Catholic Separate Regional Division No. 3	Education
Clearview School Division No. 71	
East Central Alberta Catholic Separate Schools Regional Division No. 16	
East Central Francophone Education Region No. 3	
Edmonton Catholic Separate School District No. 7	
Edmonton School District No. 7	
Elk Island Catholic Separate Regional Division No. 41	
Elk Island Public Schools Regional Division No. 14	
Evergreen Catholic Separate Regional Division No. 2	
FFCA Charter School Society	
Foothills School Division No. 38	
Fort McMurray Roman Catholic Separate School District No. 32	
Fort McMurray School District No. 2833	
Fort Vermilion School Division No. 52	
Golden Hills School Division No. 75	
Grande Prairie Public School District No. 2357	
Grande Prairie Roman Catholic Separate School District No. 28	
Grande Yellowhead Regional Division No. 35	
Grasslands Regional Division No. 6	
Greater North Central Francophone Education Region No. 2	
Greater Southern Public Francophone Education Region No. 4	
Greater Southern Separate Catholic Francophone Education Region No. 4	
Greater St. Albert Catholic Regional Division No. 29	
High Prairie School Division No. 48	
Holy Family Catholic Regional Division No. 37	
Holy Spirit Roman Catholic Separate Regional Division No. 4	
Horizon School Division No. 67	
Lakeland Roman Catholic Separate School District No. 150	
Lethbridge School District No. 51	
Living Waters Catholic Regional Division No. 42	
Livingstone Range School Division No. 68	
Medicine Hat Catholic Separate Regional Division No. 20	
Medicine Hat School District No. 76	
Moberly Hall School Society	
Mother Earth's Children's Charter School Society	
New Horizons Charter School Society	
Northern Gateway Regional Division No. 10	
Northern Lights School Division No. 69	
Northland School Division No. 61	
Northwest Francophone Education Region No. 1	
Palliser Regional Division No. 26	
Parkland School Division No. 70	
Peace River School Division No. 10	
Peace Wapiti School Division No. 76	
Pembina Hills Regional Division No. 7	
Prairie Land Regional Division No. 25	
Prairie Rose School Division No. 8	
Red Deer Catholic Regional Division No. 39	
Red Deer School District No. 104	
Rocky View School Division No. 41	
St. Albert Protestant Separate School District No. 6	
St. Paul Education Regional Division No. 1	
St. Thomas Aquinas Roman Catholic Separate Regional Division No. 38	

Entities Included in the Consolidated Government Reporting Entity

Ministry, Department, Fund or Agency	Ministry Annual Report
Sturgeon School Division No. 24	
Suzuki Charter School Society	
Westmount Charter School Society	Education
Westwind School Division No. 74	
Wetaskiwin Regional Division No. 11	
Wild Rose School Division No. 66	
Wolf Creek School Division No. 72	
Supplementary Retirement Plan Reserve Fund	Finance
Technical Institutes and The Banff Centre:	Advanced Education and Technology
Northern Alberta Institute of Technology	
Southern Alberta Institute of Technology	
The Banff Centre for Continuing Education	
Universities:	Advanced Education and Technology
Athabasca University	
The University of Alberta	
The University of Calgary	
The University of Lethbridge	
Victims of Crime Fund	Solicitor General and Public Security
Wild Rose Foundation	Tourism, Parks, Recreation and Culture

Entities Not Included in the Consolidated Government Reporting Entity

Fund or Agency	Ministry Annual Report
Alberta Foundation for Health Research	Advanced Education and Technology
Alberta Heritage Foundation for Medical Research	Advanced Education and Technology
Alberta Heritage Foundation for Science and Engineering Research	Advanced Education and Technology
Alberta Teachers' Retirement Fund Board	Education
Improvement Districts' Trust Account	Municipal Affairs and Housing
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan - Bargaining Unit	Service Alberta
Long-Term Disability Income Continuance Plan - Management, Opted Out and Excluded	Service Alberta
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 and Housing
Special Forces Pension Plan	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Board	Employment, Immigration and Industry