Finance

Annual Report
2007-2008

Alberta

Published by Alberta Finance

ISBN 978-0-7785-5677-0
ISSN 1918-2686

Electronic version **ISBN** 978-0-7785-5678-7

Alberta Finance

Annual Report
2007-2008

CONTENTS

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 24, 2008 contains Ministers' accountability statements, the consolidated financial statements of the Province and the Measuring Up report, which compares actual performance results to desired results set out in the government's business plan.

On March 12, 2008, the government announced new ministry structures. Since the 2007-08 fiscal year was substantially completed prior to this announcement, ministry annual reports and financial statements have been prepared as if the restructuring took place on April 1, 2008, to provide proper accountability for the 2007-08 fiscal year against the original 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, 2008, 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 08, 2008 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[original signed by]

Iris Evans
Minister of Finance
September 08, 2008

Message from the Minister

This past year brought several important changes to the Ministry of Finance. As the fiscal year drew to a close, we merged into the Ministry of Finance and Enterprise. Going forward, this allows the Ministry to continue providing financial leadership that strengthens the province, while ensuring Alberta has a globally competitive and sustainable economy with strong, vibrant regions and communities.

Alberta experienced another year of strong economic growth. The provincial economy continued to outpace the national economy and, after the unprecedented growth experienced the previous year, the province showed a healthy, more sustainable three per cent growth.

Alberta's economic strength helps keep our personal and business taxes among the lowest in Canada, and allows government to invest in infrastructure, such as roads, health care and education to benefit current and future generations of Albertans.

While government continued to meet the pressures of growth with increased spending on infrastructure and services, it also saved a substantial amount to help ensure prosperity for our children and grandchildren. In 2007-08, Alberta recorded a surplus on a budget presentation basis of $4.6 billion. From this, $1.4 billion was transferred to the Capital Account to help pay for capital projects in future years. Another $1.4 billion went to savings in the Alberta Heritage Savings Trust Fund and $377 million went to other endowments.

Government also adopted a new in-year surplus allocation policy. If the surplus is higher than forecast in the budget, the additional funds available are allocated one-third to savings and investment and two-thirds to capital requirements. At least 50 per cent of the capital allocation is used to address capital maintenance and replacement requirements.

Government established a new Royalty Framework that ensures that Albertans receive a fair share of the benefits of energy development in the province, while offering stability and predictability for industry and investors.

On January 1, 2008, the Alberta Investment Management Corporation (AIMCo) assumed management of more than $75 billion in public assets, including the Alberta Heritage Savings Trust Fund and other public endowments, public sector pension plans, and other funds. The new structure improves organizational governance, increases flexibility, creates opportunities for greater investment returns and follows the best practices for top public sector investment funds.

Other highlights include passage of the *Tobacco Tax Amendment Act,* which raises tobacco taxes by 16 per cent in an effort to discourage smoking in the province. Alberta also began working with British Columbia to review Alberta's *Employment Pension Plans Act (EPPA)* and BC's *Pension Benefits Standards Act (PBSA)* with a goal to align and modernize the two provinces' legislation.

Ministry of Finance and Enterprise employees are committed to providing high-quality service to Albertans, as can be seen from our list of accomplishments over the past year. I am proud to be part of such a dedicated and innovative team.

Alberta is in a solid economic position for 2008-09. We will build on our successes from last year and work hard to secure Alberta's economic prosperity for years to come.

[original signed by]

Iris Evans
Minister of Finance
September 08, 2008

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

Overview

- Ministry Vision, Mission, Core Businesses and Goals
- Relationship of Finance Department and Reporting Entities to Core Businesses
- Operational Overview
- Summary of Key Activities in the Past Year

Ministry Vision, Mission, Core Businesses and Goals

Vision

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, accountable and sustainable 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 and Reporting Entities to Core Businesses

Core Businesses	Fiscal Planning and Financial Management	Investment, Treasury and Risk Management	Financial Sector and Pensions
Department and Reporting Entities	• Budget and Fiscal Planning • Tax and Revenue Administration	• Alberta Investment Management • Treasury Management	• Pensions, Insurance and Financial Institutions
		Funds	**Agencies, Boards and Commissions**
		• *Alberta Risk Management Fund* • *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*	• *Alberta Capital Finance Authority* • *Alberta Pensions Administration Corporation* • *Alberta Local Authorities Pension Plan Corporation* • *ATB Financial* • *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 9515 – 107 Street Edmonton, Alberta T5K 2C3	Haultain Building 9811 – 109 Street Edmonton, Alberta T5K 2L5	1100-715-5th Avenue SW Calgary, Alberta T2P 2X6

Budget and Fiscal Planning

The Budget and Fiscal Planning division is responsible for advising the government on overall fiscal, economic, tax and strategic allocation issues. Its major output is the Province's annual budget. Budget and Fiscal Planning has four branches: Budget Planning and Integration, Economics and Statistics, Tax Policy and Strategic Resource Allocation.

- ***Budget Planning and Integration***
  Prepares fiscal outlooks as part of Treasury Board and Caucus planning process. Determines fiscal room available to the government and recommends fiscal policy options to encourage fiscal sustainability. Monitors and recommends changes to the government's legislated fiscal framework. Based on government decisions, prepares the annual budget and updates it quarterly. Works closely with the Treasury Board ministry.

- ***Economics and Statistics***
  Provides economic analysis of major issues influencing Alberta's economy. Prepares economic forecasts of the Alberta economy based on global developments and uses those forecasts to prepare revenue projections for income taxes. Coordinates Alberta's position on federal-provincial fiscal transfers. Provides selected statistical services for Finance and other ministries including demographic projections. Assists other departments in developing sector policies.

- ***Tax Policy***
  Monitors tax developments in Canada and abroad for application in Alberta. Reviews the competitiveness of Alberta's tax system against leading systems and recommends tax policy options to keep Alberta competitive. Provides advice to government departments on how to use the tax system to further Alberta's economic and social development. Provides direction on rebate schemes. Liaises with the Energy department on royalty issues.

- ***Strategic Resource Allocation***
  Analyzes Alberta's spending patterns in a time of rapid growth to ensure they meet fiscal objectives of sustainability and the government's strategic objectives. Develops long-term forecasts of Alberta's future spending based on economic, demographic, social and other trends. Investigates innovative spending ideas being pursued by other governments. Assists other government departments in analyzing cost drivers.

Tax and Revenue Administration (TRA)

The TRA division administers tax and related programs under the Alberta Corporate Income Tax, Tourism Levy, Fuel Tax, Tobacco Tax and Unclaimed Personal Property and Vested Property acts on behalf of the Minister of Finance. TRA also contributes to the development of Alberta tax policy. The focus of TRA's activity is to ensure a fair, efficient and effective provincial tax and revenue system. TRA has four branches: Revenue Operations, Audit, Tax Services, and Business Technology Management.

- ***Revenue Operations***
  The Revenue Operations branch registers corporations, individuals and trusts for a variety of programs the division administers under the noted legislation. Revenue Operations maintains taxpayer and claimant accounts, processes tax payments, provides refunds, validates and processes tax returns and rebate claims, and initiates TRA taxpayer filing and collection activities.

- ***Audit***
  To ensure compliance with provincial tax legislation, TRA auditors complete desk and field audits of corporate and commodity taxpayers' books and records. If auditors find tax or tax credit errors, they take any necessary remedial action, including reassessment. TRA also actively partners with other Alberta ministries and other provincial and federal tax administrations on policy development, improvements to compliance and implementation of educational strategies for the efficient administration of tax and revenue programs.

- ***Tax Services***
  TRA provides information and responses to general enquiries and technical interpretations, provides ruling services to taxpayers and staff, and administers dispute resolution for TRA actions. Working with Tax Policy, TRA develops 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 taxpayer and stakeholder group meetings to discuss common issues. To support and promote compliance, TRA produces and maintains a variety of hardcopy and online publications. These contribute to improved internal and external stakeholder understanding of tax legislation and requirements in Alberta.

- ***Business Technology Management***
  Business Technology Management assists other TRA branches to provide TRA staff and stakeholders with the technology tools they need to effectively administer and comply with legislative requirements.

Investment, Treasury and Risk Management

Alberta Investment Management Corporation (AIMCo)

Alberta Investment Management Corporation (AIMCo) is one of the largest public sector asset managers in Canada with $75.7 billion in assets under management as of March 31, 2008. AIMCo 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. These include the following:

- Pension Investments $27.4 billion
- Government Investments $44.8 billion
- Other Investments $ 3.5 billion

Total $75.7 billion

AIMCo 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.

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

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 monitoring and managing loans and guarantees. TM is also responsible for providing investment policy advice to the Minister and portfolio planning and evaluation for the investments of the General Revenue Fund 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, 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 Corporation; 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

Annual reports of all of the following organizations are available on the respective organization's Internet site, as shown below.

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

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

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

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 insurance companies.

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.

Alberta Pensions Administration (APA) Corporation

www.apaco.ab.ca

3rd floor,
10611 – 98 Avenue
Edmonton, Alberta
T5K 2P7

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

Services are provided to 475 employers and 271,000 members and pensioners.

Alberta Local Authorities Pension Plan (ALAPP) Corporation

www.lapp.ab.ca

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

Alberta Local Authorities Pension Plan (ALAPP) Corporation 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 its 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 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 Act.* Its mission is to provide local authorities in Alberta 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 Government of Alberta.

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. Its mission is 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.

Summary of Key Activities in the Past Year

- Alberta maintained strong growth in 2007, continuing to outpace the national economy, but at a more sustainable rate of three per cent. The province's economic strength allowed us to invest in infrastructure, such as roads, health care and education, to benefit current and future Albertans.

- Alberta tabled its 14th consecutive balanced budget and the province remains the only jurisdiction in Canada to have eliminated its accumulated debt.

- Government established a new in-year surplus allocation policy which stipulates that if a surplus is higher than forecast in the budget, the additional funds will be allocated one-third to savings and two-thirds to capital requirements. At least 50 per cent of the capital allocation will be used to address capital maintenance and replacement requirements.

- Alberta continued to have a Triple A credit rating, the highest credit rating among the provinces. This high rating is the result of Alberta's strong economic performance, low tax burden, low reliance on federal transfers and its record of wise investment management.

- Albertans and Alberta businesses already pay the lowest taxes in Canada. In Budget 2007, the tax credit on total charitable donations over $200 increased to 21 per cent from 12.75 per cent. When combined with the federal charitable donations credit, Albertans will receive a 50-cent tax credit for every dollar donated over the $200 threshold.

- In an effort to reduce smoking and promote a healthier lifestyle, the *Tobacco Tax Amendment Act*, *2007* raised tobacco taxes by 16 per cent. The tax on a carton of cigarettes increased by $5 to $37.

- Alberta worked with British Columbia to review Alberta's *Employment Pension Plans Act (EPPA)* and BC's *Pension Benefits Standards Act (PBSA)*. The goal of the review is to provide policy recommendations that will help align and modernize the two provinces' pension legislation.

- Government set down the province's new Royalty Framework to ensure Albertans receive a fair share of the benefits of energy development in the province, while offering stability and predictability for industry and investors.

- On January 1, 2008, the Alberta government created a provincial corporation called the Alberta Investment Management Corporation (AIMCo). AIMCo manages more than $75 billion in assets, including the Alberta Heritage Savings Trust Fund and other public endowments, public sector pension plans, and other funds. The new structure improves organizational governance, increases flexibility, creates opportunities for greater investment returns and follows the best practices for top public sector investment funds.

Results Analysis

- Ministry Financial Highlights
- Performance Measures, Targets and Results

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 2007–2008 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 2007. 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 J. Dunn, FCA
Auditor General

Edmonton, Alberta
August 20, 2008

Ministry Financial Highlights

Revenue
(thousands of dollars)

	2007-08		2006-07
	Budget	Actual	Actual
Revenue	**15,270,150**	**17,565,971**	**16,787,588**

Revenue for the Ministry was $778 million, or 5 per cent higher than last year.
(Actual – Actual)

- Strong personal income growth for Albertans resulted in personal income tax revenue being $649 million higher than in 2006-07. This includes a $367 million prior year adjustment.
- The Alberta economy continues its strong growth. As a result, corporate income taxes were higher than last year by $1.09 billion due to higher corporate taxable income and a one-time $551 million adjustment relating to overestimated income tax refunds.
- Other taxes were higher by $112 million. Tobacco tax increased by $69 and fuel tax increased by $16 million due to greater consumption. Insurance taxes were $26 million higher resulting from higher premiums written.
- Lower realized capital gains associated with the overall decline in U.S. and non-North American equity markets and write downs of endowments resulted in a decrease of $724 million in investment income.
- Net Income from commercial operations was $245 million lower than last year primarily because Alberta Treasury Branches' provision for asset backed commercial paper.
- Lower lottery revenue allocation from the Lottery Fund resulted in a decrease of $113 million as compared to the previous year.

Revenue for the Ministry was $2.3 billion, or 15 per cent, over budget.
(Budget – Actual)

- Personal income tax revenue was $953 million higher than budgeted due to stronger-than-expected growth in personal incomes.
- Corporate income tax revenue was $1.6 billion higher than budgeted. This was due to continued strength in energy prices, strong economic growth resulting in higher corporate profits and lower tax refunds.
- Overall investment returns were $198 million lower than budgeted. This was a result of the weakness in global equity markets and the strengthening of the Canadian dollar which negatively impacted U.S. and non-North American investment returns.
- Higher than expected Lottery Fund revenue resulted in increased transfers from the Lottery Fund to the General Revenue Fund of $186 million over budget.

Expenses
(thousands of dollars)

	2007-08		2006-07
	Budget	Actual	Actual
Expense	**1,255,094**	**3,489,194**	**1,223,497**

Ministry expenses were $2.3 billion, or 185 per cent higher than in 2006-07.
(Actual – Actual)

- Financial Sector and Pensions expenses were $29 million higher than last year due to higher demand for borrowing from Alberta Capital Finance Authority that caused increased borrowing costs to the Authority.
- The Teachers' Pension liability funding was $44 million higher due to funding of outstanding loans to post-1992 plan assumed during the year.
- The transfer of the liability and funding for the teachers' pre-1992 portion of the Teacher's Pension Plan to Finance from Education resulted in a $2.2 billion increase in the pension provision.

Expenses for the Ministry were $2.2 billion, or 178 per cent, over budget.
(Budget – Actual)

- Financial Sector and Pensions expenses were $17 million higher due to increased borrowing costs of Alberta Capital Finance Authority,
- An $18 million supplementary estimate was authorized for the funding of the pre-1992 Teachers' Pension Plan and was $15 million over budget.
- The $2.2 billion increase in pension provision was due to the transfer of the liability and funding of the teachers' pre-1992 portion of the Alberta Teacher's Pension Plan.
- Lower borrowing costs resulting from lower than anticipated interest rates led debt servicing costs to be $20 million lower than estimated.

Expense by Core Business

MINISTRY EXPENSE BY 2007-08 CORE BUSINESS
(thousands of dollars)

	2007-08 Budget	2007-08 Actual	2006-07 Actual
Financial Planning and Financial Management	63,796	57,080	51,362
Investment, Treasury and Risk Management	538,288	513,698	528,927
Financial Sector and Pensions	653,010	2,918,416	643,208
	1,255,094	**3,489,194**	**1,223,497**

Expense by Function

MINISTRY EXPENSE BY FUNCTION
(thousands of dollars)

	2007-08 Budget	2007-08 Actual	2006-07 Actual
Health	89,569	91,297	80,297
Education	72,362	71,857	64,642
Agriculture, Resource Management and Economic Development	28,044	33,530	22,000
Regional Planning and Development	295,164	320,244	295,204
Protection of Persons and Property	33,900	29,093	26,345
General Government	414,762	406,402	392,135
Debt Servicing	219,293	199,107	207,835
Pension Provisions	102,000	2,337,664	134,987
	1,255,094	**3,489,194**	**1,223,497**

Performance Measures, Targets and Results

Core Business: Fiscal Planning and Financial Management

A major component of Alberta's fiscal planning and budgeting is the legislated fiscal framework, enshrined mainly in the *Fiscal Responsibility Act* (FRA). Responsibility for the framework rests with Alberta Finance.

The FRA outlaws deficits, as defined in the Act, and borrowing for operating purposes. It addresses revenue volatility by limiting the amount of resource revenue that can be used for operating purposes, and by limiting in-year, non-emergency operating spending increases and revenue reduction initiatives to the budgeted Contingency Allowance. The FRA permits transfers from the Alberta Sustainability Fund to protect the fiscal plan from the costs of emergencies and disasters and from revenue declines. Transfers from the Capital Account are permitted to facilitate more predictable capital spending, allowing surpluses to be carried forward from one year to another and allocations from current-year revenue.

A new in-year surplus allocation policy was established to improve transparency. Cash available from in-year increases to the surplus is allocated one-third to savings, and two-thirds to capital, with at least half used to address capital maintenance and renewal requirements.

Finance continued to work with Treasury Board and other ministries on a number of initiatives. The Province assumed the teachers' share of the pre-1992 Teachers' Pension Plan unfunded liability. Assistance was provided in developing the Capital Plan, including advice on alternative financing proposals such as Public Private Partnerships. The fiscal planning perspective was articulated on various accounting changes being proposed to public sector accounting standards. For the third year, the *Government of Alberta Annual Report* (including the audited financial statements) used a broader scope of reporting, adding the increase in the net equity of Crown-controlled organizations in the SUCH sector (schools, universities, colleges and health authorities) to revenue. An outside Commission was appointed to undertake a review of savings.

Financial Information (thousands of dollars)	**2007-08 Budget**	**2007-08 Actual**	**Variance**
Expenses for Core Business: Fiscal Planning and Financial Management	$ 63,796	$ 57,080	($ 6,716)

The Fiscal Planning and Financial Management program was $6.7 million under budget mainly because statutory interest payments on corporate tax refunds were $4 million. Also a high number of staff vacancies caused manpower expenses to be lower than expected.

Goal 1 A Financially Strong, Accountable and Sustainable Government

A financially strong, accountable and sustainable 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.

Performance Measure	2007-08 Target	Current Results	Previous Years' Result(s)		
Alberta's credit rating	AAA	AAA (2007-08)	AAA (2006-07)	AAA (2005-06)	AAA (2004-05)

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

In the 2007-08 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 agency's 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.

Goal 2 A Fair and Competitive Provincial Tax System

Albertans continue to benefit from the Alberta tax advantage. 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.

Alberta's tax system recognizes that various circumstances, such as providing care to family members or living with a disability, adds extra financial burdens for these individuals. To further support these individuals, Alberta enhanced the caregiver, infirm dependant, disability, and disability supplement credit amounts by $5,000 above annual inflation indexing, effective January 1, 2008. Taxpayers currently claiming one of these credits will benefit up to $500 per year in 2008.

The province continued to phase in the dividend tax system and the small business threshold changes announced in September 2006. These changes saw the small business threshold increase to $430,000 on April 1, 2007. As of January 1, 2008, the dividend tax credit for dividends paid out of income that was taxed at the general corporate income tax rate rose to 9 per cent while the dividend tax credit on dividends paid out of income taxed at the small business rate was lowered to 4.5 per cent. The announced changes will be fully phased in by 2009 and will ensure income is treated equally for tax purposes, whether it is earned through wages and salaries or through small businesses and large corporations.

Performance Measure	2007-08 Target	Current Results	Previous Years' Result(s)		
Provincial tax load for a family of four	Lowest in Canada	Lowest in Canada (2007-08)	Lowest in Canada (2006-07)	Lowest in Canada (2005-06)	Lowest in Canada (2004-05)

Source: Alberta Finance and Enterprise, Interprovincial Tax and Health Care Insurance Premium Comparison, 2008, p. 160 of Budget 2008

In 2008, Alberta had the lowest provincial tax load for the $75,000 and the $125,000 income families, and the second-lowest provincial tax load for the $30,000 income family. Alberta's high basic personal and spousal amounts, which are the most generous among provinces, and low 10 per cent single rate tax, continue to provide tax advantages for Albertans. This advantage is further enhanced by the Alberta Family Employment Tax Credit program, the lack of a provincial sales tax, and low taxes on fuel.

To compensate taxpayers for rising living costs, Alberta indexed the provincial tax system by 4.7 per cent in 2008, saving Alberta taxpayers $132 million.

To help encourage Albertans, especially youth, to quit smoking or avoid taking up the habit altogether, the province raised the tobacco tax by $5.00 to $37.00 per carton of 200 cigarettes, an increase of 16 per cent, effective April 20, 2007. The tax on other tobacco products, such as loose tobacco and cigars, was also increased by 16 per cent.

Interprovincial Tax and Health Care Insurance Premium Comparison - 2008

Province	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	-871	4,036	8,233
BC	1,631	5,224	9,170
MB	1,769	7,135	13,793
NB	2,264	7,162	14,239
NL	3,099	7,728	14,831
NS	2,511	7,186	14,351
ON	1,439	6,191	11,415
PE	2,875	7,683	14,443
QC	-2,034	7,175	17,103
SK	211	5,609	11,250

Calculations are based on the following assumptions:

- Business is assumed to bear between 25 per cent and 60 per cent 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 per cent is assumed to be borne by employees and 25 per cent 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.
- 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	2007-08 Target	Current Results	Previous Years' Result(s)*		
Provincial tax load on businesses	Lowest in Canada	Lowest in Canada (2007-08)	Lowest in Canada (2006-07)	Lowest in Canada (2005-06)	Second-lowest in Canada (2004-05)
				Second-lowest in Canada (historical data was revised by the Federal Department of Finance resulting 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)

Source: Federal Department of Finance
*Data for this measure has been revised by the federal Department of Finance since these results were originally published. As a result of the revisions, Alberta had the second lowest business tax load in for 2005-06, and the lowest business tax load for 2004-05.

Alberta's tax load on business continues to be the lowest among provinces. The closest province was British Columbia, which had a tax load that was 18.9 percentage points higher than Alberta's. Alberta has the lowest general corporate income tax rate and second lowest small business income tax rate among provinces, and has no capital taxes, payroll taxes, or retail sales taxes on business purchases.

Tax Load On Business *

	2007-08	2006-07
Alberta	**60.2**	**62.8**
British Columbia	79.1	86.3
Newfoundland and Labrador	88.8	70.7
Nova Scotia	104.4	93.4
Ontario	109.7	103.7
Prince Edward Island	117.4	93.1
Quebec	118.2	129.6
Manitoba	119.0	101.0
New Brunswick	124.3	98.4
Saskatchewan	207.8	208.3

Source: Federal Department of Finance

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.

In December 2006, the Premier gave the Minister of Finance a mandate to conduct a public review to ensure Albertans are receiving a fair share from energy development through royalties, taxes and fees.

The expert panel appointed by the minister issued its report on September 18, 2007. For a full version of the panel's report, go to http://www.albertaroyaltyreview.ca. The Department of Energy was directed to review the panel's report and make recommendations to the government.

The government's response to the panel's report was issued on October 25, 2007. It is outlined in The New Royalty Framework report, which is available at http://www.energy.alberta.ca/About_Us/1293.asp.

Goal 3 Revenue Programs are Administered Fairly, Efficiently and Effectively

Collecting taxes fairly, efficiently and effectively means that:

- taxpayers and claimants are treated equitably and with respect as Tax and Revenue Administration (TRA) has committed to doing in its *TRA Fairness and Service Pledge*;
- taxpayers and claimants receive excellent value for money spent on tax programs; and
- non-compliance related revenue losses are minimized.

Performance Measure	2007-08 Target	Current Results	Previous Years' Result(s)		
Ratio of amounts added to net revenue to costs of administration	11:1	13:1 (2007-08)	15:1 (2006-07)	11.9:1 (2005-06)	9.6:1 (2004-05)

Source: Alberta Finance Tax and Revenue Administration

Through the revisions of returns and claims, the collection of overdue accounts, and audit activities, the 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 through administrative efforts, by TRA's operating budget. This year's results are above target because of program improvements, increased compliance activities and the strong Alberta economy, and as such have resulted in increased recoveries.

The amount added to net revenue for 2007-08 was $389.9 million and the associated costs were $30.1 million, resulting in a value added ratio of 13.0 to 1, recoveries of $13 for every $1 spent.

Performance Measure	2007-08 Target	Current Results	Previous Results 2006-07
Percentage of revenue obtained through self-compliance	92%	94.2 % (2007-08)	92.8%*

Source: TRA Monthly Status Report (IMAGIS)

* Note: this measure was first reported last year hence there was no "previous year result" in last year's Annual Report.

The target for percentage of revenue obtained through self-compliance of 92 per cent was achieved.

Voluntary compliance calculates whether the taxpaying public is complying with tax legislation. This measure is calculated by subtracting the revenue obtained through TRA efforts (intervention) from total revenue. The voluntary revenue is then compared to total revenue and expressed as a percentage. Program improvements such as revision of the *Fuel Tax Act* and implementation of late filing penalties for the tourism levy, for example, have resulted in increasingly timely and accurate filing and paying by taxpayers. Expanded audit activity has also contributed to move self-compliance to above-target levels.

Summary of Key Activities:

- Through collaboration with the Canada Revenue Agency, Ontario Ministry of Revenue and the Ministere du Revenu du Quebec, TRA was able to achieve very positive results responding to a number of aggressive tax planning schemes, the "Quebec Truffle" and the "Ontario Shuffle".
- In 2007-08, TRA began an insurance tax audit program.
- Program changes resulting from the new *Fuel Tax Act* and Regulation were implemented.
- A *TRA Fairness and Service Pledge* was developed to ensure taxpayers and claimants receive the service they are entitled to and that they, in turn, understand their obligations under tax legislation and the related activities required of them.
- TRA introduced Enterprise Risk Management as an internal control and strategic management tool.
- Action was taken to discontinue the Alberta Royalty Tax Credit and Royalty Credit for Individuals and Trusts programs, as announced by the government.
- TRA enhanced its systems to better manage the process of comparing taxable income data for corporations assessed by the Canada Revenue Agency and those not assessed for the same period by TRA. TRA is now better able to identify and raise assessments to recover tax on revenue not reported in Alberta.
- TRA implemented a post-payment review in the Prescribed Rate Off-road Percentages (PROP) program to confirm program compliance. Reassessments recovered rebates where claimants did not provide the required records to support their claims or were enrolled under an incorrect PROP category.

Core Business: Investment, Treasury and Risk Management

The Minister of Finance sets the long term asset allocation policies and guidelines for the funds under her administration, based on advice from Treasury Management and Alberta Investment Management Corporation (AIMCo). AIMCo implements these policies through a wide range of investment products that they have developed to meet their clients' needs with respect to returns and risk tolerances. It is expected that the asset allocation decision will be responsible for most of the funds' returns. AIMCo, through its tactical asset allocation and security selection decisions, will add incremental returns.

Financial Information (thousands of dollars)	2007-08 Budget	2007-08 Actual	Variance
Expenses for Core Business: Investment, Treasury and Risk Management	$ 538,288	$ 513,697	$ (24,591)

As the government's outstanding debt balances continue to decline, the cost of servicing the debt decreases. In 2007-08 the government also saw lower than anticipated interest rates which resulted in lower borrowing costs. Overall, debt servicing costs were $21 million lower than budgeted and $1 million lower than last year.

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

- Transfers of $46 million to Advanced Education for the Access to the Future Fund;
- A $25 million transfer from the Alberta Cancer Legacy Prevention Fund to Health; and
- A $15 million interest bearing loan advance to AIMCo.

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 2007-08 the market value of the Heritage Fund increased by $463 million from $16.6 billion to $17.0 billion. The increase can be attributed to:

- $918 million deposited from the Province's 2007-08 surplus;
- $466 million retained from the investment income as a protection against inflation; and
- $921 million decline in unrealized capital gains.

Performance Measure*	2007-08* Target	Current Results*	Previous Years' Results
Five-year 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	6.5% (CPI + 4.5%)	7.6% (1.1% above the target) (2007-08)	10.3% (3.7% above the target) (2006-07)

Source: The Heritage Fund return is calculated within the Sylvan product of FMC by the Valuation and Fund Accounting Group of the Alberta Investment Management Corp's Investment Administration Division. CPI is obtained from either the Bank of Canada web site or from Bloomberg.

*As this performance measure was implemented in the fiscal year 2004-05 the four-year annualized market value rate of return of the Heritage Fund's policy asset mix rate of return is compared against the four-year annualized CPI plus 4.5 per cent in the fiscal year 2007-08. Each year since this measure's inception, the performance measure and target was changed based on how many years the new measure was in use until it built up over time to five years. Next year will be 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 of the fund's policy benchmark compared against the annualized five-year CPI plus 4.5 per cent.

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

Performance Measure*	2007-08* 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 .53%	All funds exceeded target benchmark (2007-08)	All funds exceeded target benchmark (2006-07)

*As this performance measure was implemented in the fiscal year 2004-05, four-year annualized market value rate of return of each endowment fund is compared against the four-year annualized policy asset mix rate of return plus .53 per cent for that endowment fund in the fiscal year 2007-08. Each year since this measure's inception, the performance measure and target was changed based on how many years the new measure was in use until it built up over time to five years. Next year will be 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 of each endowment fund compared against the annualized five-year weighted average policy asset mix rate of return plus some premium as approved by the ministry's business plan.

Four-year market value rate of return of the endowment funds and their policy benchmark plus .53 per cent as of March 31, 2008:

Endowment fund	Four-year annualized market value rate of return (%)	Four-year annualized market value rate of return of the policy benchmark plus .53% (%)
Alberta Heritage Savings Trust Fund	8.50	8.12
Alberta Heritage Foundation for Medical Research Endowment Fund	8.15	8.02
Alberta Heritage Scholarship Fund	8.68	8.66
Alberta Heritage Science and Engineering Research Endowment Fund	7.55	7.51

Source: Alberta Investment Management Corp.

Performance Measure	2007-08 Target	Current Results	Previous Years' Result(s)		
Return on Consolidated Cash Investment Trust Fund compared to the Scotia Capital 91-day Treasury Bill Index	Benchmark plus 5 basis points*	Under-performed the target by 16 basis points (2007-08)	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)

Source: Alberta Investment Management Corp.

*Basis point is 1/100 of a per cent.

** The target for 2004-05 was "exceeds the benchmark by 10 basis points"

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 2007-08 was 4.68 per cent. The one-year return on the CCITF was 4.52 per cent which was 16 basis points lower than the target. The underperformance was primarily caused by the write-down of asset backed securities held in the fund.

Performance Measure	2007-08 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 $2.1 million Savings (2007-08)	Cost lower $2.8 million Savings (2006-07)	n/a (2005-06)	Cost lower $1.3 million Savings (2004-05)

Source: Internal Investment, Treasury and Risk Management Report

In 2007-08, the Ministry arranged the borrowing of $1.9 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 $2.1 million compared to selling the same bonds in the Canadian public market.

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 were 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	2007-08 Target	Current Results	Previous Years' Result(s)		
Government of Alberta employee awareness of risk management (survey issued every three years)	n/a[1]	n/a[1]	n/a[1] (2006-07)	70% (2005-06)	n/a[1] (2004-05)

Source: Risk Awareness Survey Risk Management & Insurance 2005
Note:
[1] Survey issued every three years.
A second measure is also used by Risk Management and Insurance division. This survey is issued every two years to measure the satisfaction with the services provided by the division. This was last done in 2006-07 and will be re-issued in 2008-09.Target for 2008-09 is 80 per cent satisfaction.

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.

Core Business: Financial Sector and Pensions

Alberta Finance regulates 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 plan members, 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 the Government of Alberta 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, the Alberta government, through the Automobile Insurance Rate Board (AIRB), regulates the insurance industry for affordability of compulsory automobile insurance to all Albertans. In addition, all insurance companies and their counterparts are regulated under the *Insurance Act* 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, mainly in the private sector, by setting minimum standards for plan funding, investments,

disclosure 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 for the public sector pension plans.

Financial Information (thousands of dollars)	2007-08 Budget	2007-08 Actual	Variance
Expenses for Core Business: Financial Sector and Pensions	$ 653,010	$ 2,918,415	$ 2,265,405

The Financial Sector and Pensions program was $2.3 billion over budget. This was due to the transfer of the liability and funding of the teacher's pre-1992 portion of the Alberta Teacher Pension Plan from Education to Finance, pursuant to the recently negotiated agreement with teachers in the province of Alberta.

Based on stakeholder submissions and other relevant factors, amendments to Part 5 of the *Insurance Act* were introduced in the Legislative Assembly in spring 2008. The amendments clarify and strengthen the rights consumers have when they enter into an insurance contract. Government will consult with the insurance industry as regulations to support the bill are developed.

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. Alberta Finance assesses private sector pension plan compliance with the standards set out in the *Employment Pension Plans Act* (EPPA).

Alberta Finance currently monitors 791 private sector pension plans. Of these, 689 are active, 22 are in the process of being registered, seven are suspended, and 73 are in the process of winding up. These plans have 205,821 active members. Total contributions were approximately $1.7 billion for the year ended March 31, 2008. The market value of total assets and going concern liabilities were $25.8 billion and $17.8 billion respectively, at the same reporting date.

Performance Measure	2007-08 Target	Current Results	Previous Years' Result(s)		
Percentage of private sector pension plans that meet minimum funding requirements	99%	99% (2007-08)	98% (2006-07)	99% (2005-06)	99% (2004-05)

Source: Alberta Finance, Employment Pensions

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 EPPA requires defined benefit pension plan sponsors to meet minimum funding requirements by making current service contributions, special payments to eliminate any unfunded liabilities over a fifteen-year period, and special payments to eliminate any solvency deficits over a five-year period. Sponsors of 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 per cent of pension plans registered in Alberta meet these minimum funding requirements.

This result was achieved as 99 per cent of pension plans registered in Alberta met the minimum funding requirements outlined above. Of those plans not meeting the minimum funding requirements, some are union-sponsored pension plans that were unable to meet the minimum solvency requirements in the past year. Others have come to the attention of the Superintendent because the respective employers have not remitted sufficient contributions, or they have not remitted contributions within the prescribed timelines. The Superintendent of Pensions is actively working with each of the non-compliant plans to ensure they are able to meet the minimum funding requirements.

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 Act* and regulations, ATB Financial must comply with statutory provisions that apply to Alberta crown agents in general, with government policies specified by the Minister, and with management principles adopted by government.

ATB Financial is a full-service financial institution serving over 600,000 Albertans through 157 branches and 134 agencies in Alberta. About 61 per cent of its loans 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, 2008.

Strong operating results in 2007-08 enabled ATB Financial ("ATB") to record a year-end profit in spite of taking a provision for potential losses on asset-backed commercial paper ("ABCP") of $253.1 million. Excluding the ABCP provision, net income would have been a record $283.1 million; including the ABCP provision, ATB's net income was $30.0 million. This compares with the $275 million earned in the previous year. Total assets were $23.3 billion (up 15 per cent from the previous year); total equity remained at over $1.6 billion.

ATB's return on average assets for the year was 0.14 per cent, below the targeted return of 1.2 per cent as a result of the provision for potential losses on ABCP holdings. Excluding the ABCP provision the return on average assets would have been 1.28 per cent. Overall, excluding the impacts of the ABCP provisions, the financial results for ATB compare favorably to that of major Canadian banks.

Performance Measure	2007-08 Target	Current Results	Previous Years' Result(s)		
ATB Financial return on average assets (before tax)	1.20%	0.14% (2007-08)	1.44% (2006-07)	1.20% (2005-06)	1.27% (2004-05)

Source: ATB Financial (for further information, refer to ATB Financial Annual Report for year ended March 31, 2008)
Note: Return on average assets is net income for the year divided by average total assets for the year.

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	2007-08 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) (2007-08)	Met (in both cases compared) (2006-07)	Met (in both cases compared) (2005-06)	Met (for 3 of 4 cases compared) (2004-05)

Source: ACFA Annual Report 2007, OSIFA, ACFA – www.acfa.gov.ab.ca

The ACFA aims to offer the lowest cost of borrowing to local authorities in Canada. The target was met.

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). 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. ACFA's rates were consistently below OSIFA throughout the year except for August when OSIFA's rates were eight basis points below ACFA's rate.

Goal 8 An Effective and Efficient Securities Regulatory System

An effective, efficient and streamlined securities regulatory framework is essential for 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	2007-08 Target	Current Results	Previous Years' Result(s)		
Inter-provincial/territorial securities regulatory system	Passport System extended to other areas of securities law.	Phase Two of the Passport System implemented for issuers - March 17, 2008	Amendments passed to enable Phase Two of the Passport system (2006-07)	Phase One of the passport system implemented (2005-06)	Provincial/ Territorial Memorandum of Understanding (MOU) signed (2004-05)

Source: Alberta Finance, Capital Markets Policy

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 the passport system to provide market participants with a single window of access to Canadian capital markets. In April 2005, Alberta amended the *Securities Act* to facilitate the creation and development of a passport system. Phase one of the passport system was implemented through a rule and related policy changes effective September 19, 2005.

The MOU contemplates moving to Phase two, an expanded passport system that builds on and largely replaces the first phase of the passport system - 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.

In May 2006, Alberta amended the *Securities Act* to enable implementation of Phase two of the passport system. In April 2007, Alberta amended the registration provisions of the *Securities Act* to support a new national registration rule. Additional legislative amendments are planned to support the national registration rule.

Phase two of the passport system is being implemented by the regulators in stages, beginning March 17, 2008, for prospectuses, takeover bids, continuous disclosure and exemptive relief applications. Phase Two will be fully implemented by mid-2009 with the implementation of the national registration rule.

Alberta continues to provide a leadership role as Chair of the Taskforce supporting the Council of Ministers of Securities 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	2007-08 Target	Current Results	Previous years' result(s)		
Highly harmonized securities law (includes highly harmonized rules, regulation and legislation)	Law-rules, regulation and legislation amended	Continuation of development and enactment of highly harmonized securities laws	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)

Source: Alberta Finance, Capital Markets Policy

Since 2005, Alberta has amended the *Securities Act* to support highly harmonized national securities law, including Bill 21, passed April 12, 2007, amending the Act to harmonize Alberta's securities regulation. These amendments were developed in consultation with other provinces and territories as part of our commitment under the MOU. Some of the amendments remain unproclaimed until related national rules are implemented (e.g. rules dealing with registration requirements and insider reporting exemptions) in 2009.

The Alberta government continues to lead the development of highly harmonized securities legislation. For additional information, visit the website at www.securitiescanada.org.

Goal 9 Sustainable Public Sector Pension Plans in Alberta

Performance Measure	2007-08 Target	Current Results	Previous Years' Result(s)
Improved pension plan governance	Governance review complete	Governance review ongoing throughout the year	Governance documents are in place (2006-07)

Source: Alberta Finance, Pensions Policy

Public sector pension plans must be sustainable so that they can provide the promised benefits to plan beneficiaries at costs which are affordable.

In 2007, government assumed the teachers' share of the pre-1992 unfunded liability under the Teachers' Pension Plan as a result of a Memorandum of Agreement between the Government of Alberta and the Alberta Teachers' Association. This increased the government's obligation in respect of the public sector pension plans by $2.2 billion.

The governance of the pension plans is currently being reviewed by Alberta Finance in consultation with the pension boards and other stakeholders. Phase I of the governance review focuses on clarification of roles and accountabilities of those involved in the administration of the plans. Operating protocols are being put in place clarifying roles and responsibilities. Operating protocols are in place for the Local Authorities Pension Plan and are being finalized for the Public Service Pension Plan, Special Forces Pension Plan and Management Employees Pension Plan.

Phase II of the governance review, which addresses board structure, the stakeholder role in governance, and effective consultation processes with key stakeholders, will continue through 2008-09.

Financial Statements of the Ministry and Its Entities

- Ministry of Finance
- Department of Finance
- Regulated Funds
- Provincial Agencies and Non-commercial Crown-controlled Corporations
- Commercial Enterprises
- Commercial Crown-controlled Corporation

Ministry of
Finance

MINISTRY OF FINANCE

Consolidated Financial Statements

Year Ended March 31, 2008

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, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Consolidated Statement of Operations

Year Ended March 31, 2008

($ millions)

	2008		2007
	Budget	Actual	Actual
	(Schedule 2)		Restated (Note 13)
Revenues (Schedules 1 and 2)			
Income taxes	$ 10,444	$ 12,966	$ 11,228
Other taxes	1,919	1,933	1,821
Transfers from Government of Canada	4	4	4
Net investment income (Note 12)	2,427	2,229	2,953
Net income from commercial operations (Note 12)	268	37	282
Premiums, fees and licences	46	54	45
Internal government transfers	91	277	390
Other	71	66	65
	15,270	17,566	16,788
Expenses (Schedules 2 and 3)			
Fiscal planning and financial management	58	51	46
Investment, treasury and risk management	316	312	319
Financial sector and pensions	367	384	355
Ministry support services	10	10	9
Teachers' pension liability funding	182	197	153
Valuation adjustments (Schedule 4)	103	2,337	134
Debt servicing costs			
General government	188	168	170
School boards	31	31	38
	1,255	3,490	1,224
Net operating results	$ 14,015	$ 14,076	$ 15,564

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

Consolidated Statement of Financial Position

As At March 31, 2008

	($ millions)	
	2008	2007 Restated (Note 13)
Assets		
Cash and temporary investments (Schedule 5)	$ 5,751	$ 5,342
Accrued interest and accounts receivable (Schedule 6)	1,556	1,210
Portfolio investments (Schedule 7)	35,641	32,746
Equity in commercial enterprises (Schedule 8)	1,883	1,826
Loans and advances to government entities (Schedule 9)	1,218	1,164
Other loans and advances (Schedule 10)	5,876	5,043
Tangible capital assets (Schedule 11)	17	18
	$ 51,942	$ 47,349
Liabilities		
Bank overdraft	$ 2,182	$ 1,639
Accrued interest and accounts payable (Schedule 12)	1,267	1,675
Unmatured debt (Schedule 13)	2,446	2,557
Debt of Alberta Capital Finance Authority (Schedule 14)	5,739	4,974
Pension obligations (Schedule 15)	7,803	5,466
Other accrued liabilities (Schedule 16)	262	321
	19,699	16,632
Net Assets		
Net assets at beginning of year	30,717	22,412
Net operating results	14,076	15,564
Net financing provided for general revenues	(12,564)	(7,259)
Accumulated unrealized gain (Schedule 8)	14	-
Net assets at end of year	32,243	30,717
	$ 51,942	$ 47,349

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

Consolidated Statement of Cash Flows

Year Ended March 31, 2008

	($ millions)	
	2008	2007 Restated (Note 13)
Operating activities		
Net operating results	$ 14,076	$ 15,564
Non-cash items included in net operating results	1,968	(470)
	16,044	15,094
(Increase) Decrease in receivables	(538)	12
Increase (Decrease) in payables	(129)	218
Other	(105)	-
Cash provided by operating activities	15,272	15,324
Capital activities		
Purchase of tangible capital assets	(7)	(7)
Proceeds from sale of captial assets	4	-
Cash applied to capital activities	(3)	(7)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	12,782	12,410
Portfolio investments purchased	(15,331)	(20,361)
Repayments of loans and advances	2,576	2,611
Loans and advances made	(3,452)	(3,250)
Cash applied to investing activities	(3,425)	(8,590)
Financing activities		
Debt issues	7,304	6,948
Debt retirement	(6,658)	(6,629)
Grants for school construction debenture principal repayment	(60)	(65)
Net financing provided for general revenues	(12,564)	(7,259)
Cash applied to financing activities	(11,978)	(7,005)
Decrease in cash	(134)	(278)
Cash and temporary investments, net of bank overdraft, at beginning of year	3,703	3,981
Cash and temporary investments, net of bank overdraft, at end of year	$ 3,569	$ 3,703

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

Notes to the Consolidated Financial Statements

March 31, 2008

(All dollar amounts in millions, unless otherwise stated)

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 fulfill 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 Act, 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 Investment Management Corporation	*Alberta Investment Management Corporation Act*, Chapter A-26.5

Note 1 (continued)

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

NOTE 2 PURPOSE

The Ministry's core businesses are:

a) Fiscal planning and financial management,
b) Investment, treasury and risk management and
c) Regulation of pensions, insurance and financial institutions.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statement presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the Ministry. 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, Alberta Securities Commission and Alberta Investment Management Corporation 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. 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.

Note 3 (continued)

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, 2008 and that significantly affect the consolidation have been recorded.

b) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable.

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

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.

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 17 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.

Note 3 (continued)

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.

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 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.

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 15). 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 $8,271 million (2007: $7,622 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 9.5%.

Corporate income tax revenue, totaling $4,695 million (2007: $3,606 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Department records corporate income tax revenue as installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments.

Pension provisions, relating to those plans for which the Minister of Finance is responsible, of $2,338 million (2007: $135 million) are subject to measurement uncertainty because a Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits.

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.

Change in Accounting Estimate

The method for calculating the estimate of corporate income tax refunds payable was revised in 2008 resulting in a reduction of corporation income tax refunds payable and an upward adjustment to corporate income tax revenue of $551 million in the current year. The Ministry considers this a change in estimate and has applied the change prospectively in the financial statements.

NOTE 4 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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

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 Alberta Capital Finance Authority's (the Authority) 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 the Authority is an approximation of its fair value to the holder.

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

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

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

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.

NOTE 6 CONTRACTUAL OBLIGATIONS

($ millions)

Obligations to outside organizations in respect of contracts entered into before March 31, 2008 amounted to $207 million (2007: $236 million). 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:

2008-09	$ 73
2009-10	52
2010-11	26
2011-12	17
2012-13	13
Thereafter	26
	$ 207

NOTE 7 CONTINGENT LIABILITIES

($millions)

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

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

a) Indemnities and Guarantees

Indemnities and guarantees at March 31, 2008 amounted to $3 million (2007: $4 million). 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, 2007, credit unions in Alberta held deposits totaling $13,337 million (2006: $11,785 million).

At March 31, 2008, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $270 million (2007: $204 million).

c) Legal Actions

The Ministry is 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 million plus a provision for interest and other costs that is not calculable. Further, the Ministry was named as a defendant in 14 (2007: 16) other legal actions in addition to the one noted above. The total claimed in specific legal actions amounts to approximately $66 million (2007: $58 million).

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.

Note 8 (continued)

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

	Maturity			($ millions) 2008	
	Under 1 Year	1 to 3 Years	Over 3 Years	Contract Notional Amount	Net Fair Value
Equity index swap contracts	87%	9%	4%	$ 4,866	$ 9
Interest rate swap contracts	9%	12%	79%	12,642	(23)
Forward foreign exchange contracts	100%	-	-	3,283	(57)
Cross-currency interest rate swaps	19%	47%	34%	1,121	7
Credit default swap contracts	2%	20%	78%	5,594	(34)
Bond index swap contracts	100%	-	-	539	28
Equity index futures contracts	96%	2%	2%	1,215	28
Swap option contracts	51%	-	49%	2,747	-
				$ 32,007	$ (42)

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, 2008, trust funds under administration were as follows:

	($ millions) 2008	2007
Local Authorities Pension Plan Fund	$ 15,321	$ 15,060
Public Service Pension Plan Fund	5,726	5,854
The Workers' Compensation Board Accident Fund	2,648	2,894
Universities Academic Pension Plan Fund	2,419	2,521
Management Employees Pension Plan Fund	2,317	2,329
Special Forces Pension Plan Fund	1,435	1,492
Regional Health Authorities and various health institutions construction accounts	841	978
Other	184	215
	$ 30,891	$ 31,343

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 multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $5 million for the year ended March 31, 2008 (2007: $5 million).

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of $84 million (2006: $7 million) and the Public Service Pension Plan reported a deficiency of $92 million (2006: surplus of $153 million). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers reported a surplus of $2 million (2006: $4 million).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2008, the Bargaining Unit Plan reported a deficiency of $6 million (2007: $0) and the Management, Opted Out and Excluded Plan reported a surplus of $8 million (2007: surplus of $10 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 11 EXTERNAL INVESTMENT EXPENSES

The Ministry manages, through the Alberta Investment Management Corporation (AIMCo), the investment assets of the Government of Alberta and several external entities, such as public sector pension plans and long-term disability funds. In the regular course of its duties AIMCo incurs fees from external managers on behalf of the Ministry and the external entities. These fees are currently netted against the investment income earned on the related investments and are estimated as follows:

	($ millions)	
	2008	2007
Incurred by Ministry of Finance	$ 65	$ 55
Incurred by external entities	91	74
	$ 156	$ 129

NOTE 12 ASSET BACKED SECURITIES

The Canadian market for third party or non-bank sponsored asset-backed commercial paper ("ABCP") suffered a liquidity disruption in mid-August 2007, following which a group of market participants, including major investors, banks, asset providers, dealers, and third-party sponsors, agreed to work collectively to restructure this market segment. This agreement, which came to be known as the Montreal Accord (the "Accord"), provided for a standstill period during which participating investors would not demand repayment of their ABCP investments as they matured and the commercial paper issuers would not make liquidity calls to their liquidity providers who, in turn, would not demand additional collateral from the issuers. Participants in the Accord also agreed in principle to the conversion of the ABCP notes into longer term floating-rate notes with maturities corresponding to those of the underlying assets. A Pan-Canadian Investors Committee ("Investors Committee") was subsequently established to oversee the orderly restructuring of these instruments during this standstill period. On April 25, 2008, nearly 96 per cent of 1,932 ABCP note holders voted in favor of the restructuring plan devised by the Investors Committee. Should the Plan receive court approval, it is anticipated that the restructuring will be implemented as early as mid-July 2008.

At March 31, 2008, the Ministry, through its investments held by the Department of Finance, Alberta Cancer Prevention Legacy Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Savings Trust Fund, Alberta Heritage Scholarship Fund and Alberta Heritage Science and Engineering Research Endowment Fund incurred write-downs. These write-downs amounted to $161 million, of which 4% relates to ABCP subject to the Accord and the balance relates to other asset backed securities. These charges have been included in net investment income on the Consolidated Statement of Operations. As at March 31, 2008, the remaining estimated fair value of the Ministry's investments in asset back securities was $124 million.

Note 12 (continued)

Investments held by commercial enterprises that are consolidated on the modified equity basis also incurred write-downs on ABCP of $253 million (96% relates to ABCP subject to the Accord). These write-downs are included in net income from commercial operations on the Consolidated Statement of Operations. As at March 31, 2008, the remaining estimated fair value of these investments in ABCP was $890 million.

NOTE 13 REORGANIZATION

($ millions)

a) TEACHERS' PENSION PLANS

On January 29, 2008, Cabinet approved an Order in Council that transferred the liability and funding of the pre-1992 portion of the Alberta Teachers' Retirement Fund from Education to Finance. The Government of Alberta portion of the liability that was transferred as of April 1, 2006 was $4,319 million. The financial statement comparatives have been restated for this amount and any subsequent pension provisions. An additional $2,215 million representing the teachers' portion was assumed in the year as part of the Government's agreement with the Alberta Teachers Association. The entire pre-1992 unfunded liability of the Teachers' Pension Plan is recorded in the Department as of March 31, 2008. The total pension provision of $2,338 million, which includes the $2,215 million teachers' share, is included in the valuation adjustments on the Statement of Operations.

b) ALBERTA INVESTMENT MANAGEMENT CORPORATION

On January 1, 2008, the investment operations of the Department of Finance were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance and provides investment services to the Government of Alberta and several public sector pension plans. The revenues and expenses of the investment operations for the first nine months of the year are recognized in the Department's financial statements.

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2008 presentation.

NOTE 15 APPROVAL OF FINANCIAL STATEMENTS

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

Schedules to the Consolidated Financial Statements

March 31, 2008

(All dollar amounts in millions, unless otherwise stated)

REVENUES

Schedule 1

	($millions)		
	2008		2007
	Budget	Actual	Actual
Income taxes			
Personal income tax	$ 7,318	$ 8,271	$ 7,622
Corporate income tax	3,126	4,695	3,606
	10,444	12,966	11,228
Other taxes			
Tobacco tax	890	845	776
Fuel tax	720	751	735
Insurance taxes	240	258	232
Alberta tourism levy	65	72	68
Special broker tax	4	7	10
	1,919	1,933	1,821
Transfers from Government of Canada			
Unconditional subsidy	4	4	4
Net investment income			
Investment income	2,427	2,294	3,008
External investment expenses	-	(65)	(55)
	2,427	2,229	2,953
Net income from commercial operations			
Alberta Treasury Branches	262	29	275
Other	6	8	7
	268	37	282
Premiums, fees, and licences			
Alberta Securities Commission	22	25	23
Deposit guarantee fee	17	21	14
Alberta Insurance Council	4	4	4
Other	3	4	4
	46	54	45
Internal government transfers			
Lottery Fund	91	277	390
	91	277	390
Other			
Pensions administration	30	27	27
Service revenue	28	17	18
Insurance services	11	11	10
Securities settlements	-	1	8
Refunds of expenditure and miscellaneous	2	10	2
	71	66	65
	$ 15,270	$ 17,566	$ 16,788

BUDGET

Schedule 2

($ millions)

	2007-08 Estimates	Adjustments (a)	2007-08 Budget	Authorized Supplementary (b)	2007-08 Authorized Budget
Revenues					
Income taxes	$ 10,444	$ -	$ 10,444	$ -	$ 10,444
Other taxes	1,919	-	1,919	-	1,919
Transfers from Government of Canada	4	-	4	-	4
Net investment income	2,427	-	2,427	-	2,427
Net income from commercial operations	268	-	268	-	268
Premiums, fees, and licences	46	-	46	-	46
Internal government transfers	91	-	91	-	91
Other	71	-	71	-	71
	15,270	-	15,270	-	15,270
Expenses					
Fiscal planning and financial management	58	-	58	-	58
Investment, treasury and risk management	316	-	316	-	316
Financial sector and pensions	367	-	367	-	367
Ministry support services	10	-	10	-	10
Teachers' pre-1992 pension liability funding	182	-	182	18	200
Valuation adjustments	1	102	103	-	103
Debt servicing costs					
General government	188	-	188	-	188
School boards	31	-	31	-	31
	1,153	102	1,255	18	1,273
Net operating results	$ 14,117	$ (102)	$ 14,015	$ (18)	$ 13,997

a) Adjustments consist of a $102 million for pension provisions excluded from the Estimates

b) Supplementary Estimates were approved on November 22, 2007 and April 22, 2008.

EXPENSES BY OBJECT

Schedule 3

($ millions)

	2008 Budget	2008 Actual	2007 Actual (Restated)
Salaries, wages and employee benefits	$ 100	$ 97	$ 87
Supplies and services	356	58	39
Grants	123	424	211
Interest and amortization of unrealized exchange gains and losses	288	476	464
Pension liability funding	260	73	265
Interest payments on corporate tax refunds	20	17	16
Valuation adjustments (Schedule 4)	103	2,337	134
Amortization of tangible capital assets	4	7	7
Other financial transactions	1	1	1
	$ 1,255	$ 3,490	$ 1,224

VALUATION ADJUSTMENTS

Schedule 4

($ millions)

	2008 Budget	2008 Actual	2007 Actual (Restated)
Pension provisions (Note 13 (a))	$ 102	$ 2,338	$ 135
Provision for doubtful accounts and loans	-	-	(1)
Provision for employee benefits other than pensions	1	(1)	-
	$ 103	$ 2,337	$ 134

CASH AND TEMPORARY INVESTMENTS

Schedule 5

	($ millions)	
	2008	2007
Fixed-income securities [a]		
Corporate	$ 2,590	$ 3,227
Provincial, direct and guaranteed	752	480
Pooled investment funds	35	32
Government of Canada, direct and guaranteed	910	113
Municipal	18	-
	4,305	3,852
Deposit in the Consolidated Cash Investment Trust Fund [b]	1,250	1,313
Cash in bank and in transit	196	177
	$ 5,751	$ 5,342

a) At March 31, 2008, fixed-income securities held have an average effective market yield of 2.07% (2007:4.70%) per annum. All of the securities have terms to maturity of less than one year (2007: all).

b) At March 31, 2008, securities held by the Consolidated Cash Investment Trust Fund have an average effective market yield of 4.81% (2007: 4.36%) per annum. Eighty percent of the securities in the Fund mature within one year (2007: 83%).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

Schedule 6

	($ millions)	
	2008	2007
Personal income tax	$ 588	$ 319
Corporate income tax	377	310
Accrued interest and receivable from sale of investments	317	298
Lottery Fund	96	118
Fuel tax	66	66
Insurance taxes	68	60
Contributions receivable from credit union system	17	22
Tobacco tax	8	8
Tourism levy	6	6
Financial institutions capital tax	2	2
Other	12	2
	1,557	1,211
Less allowance for doubtful accounts	1	1
	$ 1,556	$ 1,210

PORTFOLIO INVESTMENTS

Schedule 7

($ millions)

	2008 Book Value	2008 Fair Value	2007 Book Value	2007 Fair Value
Fixed-income securities				
Government of Canada, direct and guaranteed	$ 4,477	$ 4,585	$ 2,574	$ 2,579
Provincial, direct and guaranteed	4,156	4,245	3,276	3,290
Municipal	213	217	172	172
Corporate	7,115	7,099	8,566	8,569
Pooled investment funds	6,460	6,419	6,407	6,447
	22,421	22,565	20,995	21,057
Equities				
Pooled investment funds				
Canadian	5,546	6,190	3,384	3,908
Foreign	6,332	6,321	5,968	6,578
Real Estate	262	359	1,452	2,078
Absolute return strategies	1,080	1,055	947	1,023
	13,220	13,925	11,751	13,587
	$ 35,641	$ 36,490	$ 32,746	$ 34,644
Fixed income ownership				
Department [(a)]	$ 15,961	$ 16,146	$ 14,587	$ 14,610
Alberta Heritage Savings Trust Fund [(b)]	5,270	5,227	5,025	5,057
Other entities	1,190	1,192	1,383	1,390
	$ 22,421	$ 22,565	$ 20,995	$ 21,057
Average effective market yield				
Department		3.5%		4.2%
Alberta Heritage Savings Trust Fund		3.6%		4.7%

a) Of the Department's fixed income securities 39% 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) had the following term maturities based on principal amount:

	2008	2007
	%	
Under 1 year	4	4
1 to 5 years	28	30
6 to 10 years	39	37
11 to 20 years	11	10
Over 20 years	18	19
	100	100

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 8

	($ millions) 2008	2007
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,738	$ 1,456
Total revenue	1,332	1,284
Total expense	1,294	1,002
Net revenue	38	282
Accumulated unrealized gains [a]	14	-
Accumulated surpluses at end of year	$ 1,790	$ 1,738
Represented by		
Assets		
Loans	$ 19,447	$ 16,998
Investments	1,370	1,795
Other assets	2,667	1,634
Total assets	23,484	20,427
Liabilities		
Accounts payable	446	364
Deposits	21,175	18,253
Unmatured debt	73	72
Total liabilities	21,694	18,689
	$ 1,790	$ 1,738
Accumulated surpluses at end of year		
Alberta Treasury Branches (ATB)	$ 1,669	$ 1,623
Credit Union Deposit Guarantee Corporation	119	113
N.A. Properties (1994) Ltd.	2	2
	1,790	1,738
Subordinated debentures in support of deposit guarantees	93	88
Equity in commercial enterprises at end of year	$ 1,883	$ 1,826

a) Effective April 1, 2007, certain entities within the Ministry of Finance implemented new accounting standards related to the reporting of financial instruments and “other comprehensive income” as prescribed by the Canadian Institute of Chartered Accountants. Under these standards assets and liabilities classified as “available for sale” or “held for trading” are recorded at fair value with resulting gains and losses charged to income or equity as other comprehensive income. As Generally Accepted Accounting Principles for the public sector does not recognize these gains and losses, they have been reversed. Amounts relating to other comprehensive income for commercial enterprises have been recorded as an adjustment to equity and reported as accumulated unrealized gains.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 9

	($ millions) 2008	2007
Agriculture Financial Services Corporation	$ 994	$ 921
Alberta Social Housing Corporation	224	243
	$ 1,218	$ 1,164

OTHER LOANS AND ADVANCES

Schedule 10

	($ millions)	
	2008	2007
Alberta Capital Finance Authority [(a)]	$ 5,733	$ 4,940
Alberta Heritage Savings Trust Fund Act	184	188
Farm Credit Stability Act	2	4
Board of Governors of the University of Alberta	-	1
	5,919	5,133
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	43	90
	$ 5,876	$ 5,043

a) The fair value of the loans as at March 31. 2008 was $6,229 (2007: $5,360). Municipal loans on average yield 5.6% per annum (2007: 6.0%).

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.

TANGIBLE CAPITAL ASSETS

Schedule 11

	($ millions)				
	2008				2007
	Equipment	Computer Hardware and Software	Leaseholds	Total	Total
Estimated useful life	10 years	5 years	10 years		
Historical Cost					
Beginning of year	$ 4	$ 46	$ 4	$ 54	$ 47
Additions	-	6	1	7	7
Disposals - including write-downs	-	(7)	-	(7)	-
	4	45	5	54	54
Accumulated Amortization					
Beginning of year	2	32	2	36	29
Amortization expense	1	5	1	7	7
Effect of disposals	-	(6)	-	(6)	-
	3	31	3	37	36
Net book value at March 31, 2008	$ 1	$ 14	$ 2	$ 17	
Net book value at March 31, 2007	$ 2	$ 14	$ 2		$ 18

ACCRUED INTEREST AND ACCOUNTS PAYABLE

Schedule 12

($ millions)

	2008	2007
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	$ 160	$ 150
Corporate income tax receipts in abeyance	488	424
Corporate income tax refunds payable	324	927
Unearned revenue	1	1
Other	294	173
	$ 1,267	$ 1,675

UNMATURED DEBT

Schedule 13

($ millions)

	2008				2007	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt						
Floating rate and short-term fixed rate (c)	4.14	0.48	$ 689	$ 695	$ 514	$ 514
Fixed rate long-term (d)	6.97	3.86	1,757	1,988	2,043	2,258
	6.18	2.98	$ 2,446	$ 2,683	$ 2,557	$ 2,772

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 $679 million (2007: $679 million) held by the Canada Pension Plan Investment Fund.

Schedule 13 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2008-09, and thereafter, are as follows:

2008-09	$ 771
2009-10	78
2010-11	378
2011-12	456
2012-13	276
Thereafter to 2016-17	490
	2,449
Unamortized discount	(3)
	$ 2,446

None of the debt has call provisions (2007: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 14

($ millions)

	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
Alberta Capital Finance Authority				
Canadian dollar fixed rate debt [(a)]	$ 5,739	$ 5,889	$ 4,974	$ 5,205
Effective rate per annum		5.8%		6.1%

a) Canadian dollar fixed rate debt includes $1,706 million (2007: $1,851 million) held by the Canada Pension Plan Investment Fund.

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 2008-09 and thereafter are as follows:

2008-09	$ 369
2009-10	381
2010-11	170
2011-12	283
2012-13	533
Thereafter	4,003
	$ 5,739

PENSION OBLIGATIONS

Schedule 15

	($ millions)	
	2008	2007 (Restated)
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan [a]	$ 698	$ 723
Members of the Legislative Assembly Pension Plan [b]	50	50
Universities Academic Pension Plan [c]	205	196
Management Employees Pension Plan [d]	20	-
Provincial Judges and Masters in Chambers Pension Plan [e]	4	-
Pre-1992 Teachers' Pension Plan [f]	6,776	4,440
	7,753	5,409
Obligations to pension plans for employees of organizations outside the government sector		
Special Forces Pension Plan [c]	50	57
	$ 7,803	$ 5,466

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% 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% by the Ministry 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 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.

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.

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.

Schedule 15 (continued)

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. 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 Plan. The rates in effect at March 31, 2007 are 7.00% of *capped salary* for plan members and 16.16% of *capped salary* for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

f) During the year the Department of Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plans. The extrapolated value of this obligation at March 31, 2008 is $6,776 million. The Department currently funds 100% of this obligation.

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 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, 2006	4.00	2.70	6.70
Management Employees Pension Plan	December 31, 2006	4.00	2.75	6.75
Provincial Judges and Masters in Chambers Pension Plan	December 31, 2005	3.50	3.00	6.50
Teachers' Pension Plans	August 31, 2006	4.25	3.00	7.25
Special Forces Pension Plan	December 31, 2006	4.00	2.50	6.50

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred losses of $17 million (2007: deferred gains $47 million), unfunded liabilities were extrapolated to March 31, 2008.

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

	($ millions)	
	2008	2007
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 256	$ 315
Vacation entitlements	6	6
	$ 262	$ 321

RELATED PARTY TRANSACTIONS

Schedule 17

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.

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

	($millions)	
	2008	2007
Revenues		
Transfers	$ 277	$ 391
Interest from loans and advances to government entities	89	127
Interest from loans and advances to school boards	35	35
Charges for services	11	9
	$ 412	$ 562
Expenses		
Debt servicing costs - school boards debt	$ 31	$ 38
Transfers	72	90
Cost of services	3	3
	$ 106	$ 131
Assets		
Accounts receivable	$ 700	$ 634
Accrued interest receivable	13	12
Loans and advances to government entities	1,217	1,163
Loans and advances to school boards	278	342
	$ 2,208	$ 2,151
Liabilities		
Other accrued liabilities - future funding of school boards debt	$ 256	$ 315

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

Schedule 17 (continued)

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.

	2008	2007
Expenses - incurred by others		
Accommodation and other costs	$ 3	$ 3
Corporate internal audit services	2	2
Legal Services	2	3
	$ 7	$ 8

DEPARTMENT OF FINANCE

Financial Statements

Year Ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Department of Finance as at March 31, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Statement of Operations

Year ended March 31, 2008

	($ millions)		
	2008		2007
	Budget (Schedule 4)	Actual	Actual Restated (Note 3)
Revenues (Schedule 1)			
Internal government transfers	$ 1,022	$ 635	$ 1,755
Income taxes	10,444	12,966	11,228
Other taxes	1,919	1,933	1,821
Transfers from Government of Canada	4	4	4
Investment income	691	932	702
Premiums,fees and licences	21	24	18
Other	29	24	24
	14,130	16,518	15,552
Expenses - directly incurred (Note 2 (B) and Schedule 20)			
Voted (Schedules 3 and 5)			
Ministry support services	10	10	9
Fiscal Planning and Financial Management	38	35	30
Investment, Treasury and Risk Management	33	26	73
Financial Sector and Pensions	8	8	7
Payments to the Alberta Heritage Savings Trust Fund	-	918	1,000
Teachers' pre-1992 pensions - liability funding	182	197	152
Debt servicing costs - school construction	31	31	38
	302	1,225	1,309
Statutory (Schedules 3 and 5)			
Internal Government Transfers to:			
Access to the Future Fund	46	46	40
Alberta Cancer Prevention Legacy Fund	-	-	500
Alberta Heritage Foundation for Medical Research Endowment Fund	150	150	150
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	-	-	250
Alberta Heritage Scholarship Fund	-	227	20
Alberta Heritage Science and Engineering Research Endowment Fund	-	-	100
Interest payments on corporate tax refunds	20	16	15
Pension liability funding	78	73	72
Debt servicing costs	188	168	170
Valuation adjustments - pension provisions (Schedule 6)	103	2,337	135
	585	3,017	1,452
	887	4,242	2,761
Net Operating Results	$ 13,243	$ 12,276	$ 12,791

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

Statement of Financial Position

As At March 31, 2008

	($ millions)	
	2008	**2007 Restated (Note 3)**
Assets		
Cash and temporary investments (Schedule 8)	$ 5,389	$ 5,161
Accounts and accrued interest receivable (Schedule 9)	1,499	1,122
Portfolio investments (Schedule 10)	15,961	14,587
Loans and advances to government entities (Schedule 11)	1,231	1,164
Other loans, advances and investments (Schedule 12)	8	7
Tangible capital assets (Schedule 13)	6	10
	$ 24,094	$ 22,051
Liabilities		
Bank overdraft	$ 2,182	$ 1,639
Accounts and accrued interest payable (Schedule 14)	1,045	1,422
Unmatured debt (Schedule 15)	2,446	2,557
Pension obligations (Schedule 16)	7,803	5,466
Other accrued liabilities (Schedule 17)	260	320
	13,736	11,404
Net Assets		
Net assets at beginning of year, as restated (Note 3)	10,647	5,115
Net operating results	12,276	12,791
Net financing provided for general revenues	(12,565)	(7,259)
Net assets at end of year	10,358	10,647
	$ 24,094	$ 22,051

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

Statement of Cash Flows

Year ended March 31, 2008

	($ millions)	
	2008	**2007**
		Restated (Note 3)
Operating transactions		
Net operating results	$ 12,276	$ 12,791
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(158)	(60)
Amortization of tangible capital assets (Schedule 3)	3	3
Valuation adjustments (Schedule 6)	2,337	135
	14,458	12,869
Decrease (Increase) in receivables	(378)	96
(Decrease) Increase in payables	(378)	368
Cash provided by operating transactions	13,702	13,333
Capital transactions		
Acquisition of tangible capital assets (Schedule 13)	(3)	(4)
Proceeds from disposal of tangible capital assets	4	-
Cash provided by (applied to) capital transactions	1	(4)
Investing transactions		
Disposals of portfolio investments	10,805	10,170
Portfolio investments purchased	(12,015)	(16,019)
Repayments of loans and advances		
Government entities	2,139	2,208
Other	3	5
Loans and advances - Government entities	(2,201)	(2,221)
Cash applied to investing transactions	(1,269)	(5,857)
Financing transactions		
Debt issues	5,573	6,064
Debt retirement	(5,698)	(6,058)
Grants for school construction debenture principal repayment (Schedule 5)	(60)	(66)
Net financing provided for general revenues	(12,565)	(7,259)
Cash applied to financing transactions	(12,749)	(7,319)
Increase (Decrease) in cash	(315)	153
Cash and temporary investments, net of bank overdraft, beginning of year	3,522	3,369
Cash and temporary investments, net of bank overdraft, end of year	$ 3,207	$ 3,522

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

Notes to the Financial Statements

March 31, 2008

(All dollar amounts in millions, unless otherwise stated)

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 include: budgeting and fiscal planning; treasury management; risk management; tax and revenue administration; pensions' policy and regulation; insurance regulation and financial institution regulation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statement presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the Department.

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 as follows:

1. Alberta Heritage Savings Trust Fund,
2. Alberta Heritage Foundation for Medical Research Endowment Fund,
3. Alberta Heritage Scholarship Fund,
4. Alberta Heritage Science and Engineering Research Endowment Fund,
5. Alberta Cancer Prevention Legacy Fund,
6. Alberta Risk Management Fund,
7. Provincial Judges and Masters in Chambers Reserve Fund,
8. Supplementary Retirement Plan Reserve Fund,
9. Alberta Securities Commission,
10. Alberta Capital Finance Authority,
11. Alberta Insurance Council,
12. Alberta Pensions Administration Corporation,
13. Alberta Local Authorities Pension Plan Corporation,
14. Alberta Investment Management Corporation,
15. Alberta Treasury Branches and its subsidiaries,
16. Credit Union Deposit Guarantee Corporation,
17. N.A. Properties (1994) Ltd. and
18. 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 responsible.

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

Note 2 (continued)

b) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable.

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

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 for which the Department has primary responsibility and accountability, 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 20.

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 thousand and the threshold for all other tangible capital assets is $5 thousand.

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.

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.

Note 2 (continued)

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 $8,271 million (2007: $7,622 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 9.5%.

Corporate income tax revenue, totaling $4,695 million (2007: $3,606 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Department records corporate income tax revenue as installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments.

Pension provisions, relating to those plans for which the Minister of Finance is responsible, of $2,338 million (2007: $135 million) are subject to measurement uncertainty because a Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits.

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.

Change in Accounting Estimate

The method for calculating the estimate of corporate income tax refunds payable was revised in 2008 resulting in a reduction of corporation income tax refunds payable and an upward adjustment to corporate income tax revenue of $551 million in the current year. The Department considers this a change in estimate and has applied the change prospectively in the financial statements.

NOTE 3 RESTRUCTURING

a) TEACHERS' PENSION PLANS

On January 29, 2008, Cabinet approved an Order in Council that transferred the liability and funding of the pre-1992 portion of the Alberta Teachers' Retirement Fund from Education to Finance. The Government of Alberta portion of the liability that was transferred as of April 1, 2006 was $4,319 million. The financial statement comparatives have been restated for this amount and any subsequent pension provisions. An additional $2,215 million representing the teachers' portion was also assumed in the year as part of the Government's agreement with the Alberta Teachers Association. The entire pre-1992 unfunded liability of the Teachers' Pension Plan is recorded in the Department as of March 31, 2008. The total pension provision of $2,338 million, which includes the $2,215 million teachers' share, is included in the valuation adjustments on the Statement of Operations.

b) ALBERTA INVESTMENT MANAGEMENT CORPORATION

On January 1, 2008, the investment operations of the Department of Finance were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance and provides investment services to the Government of Alberta and several public sector pension plans. The revenues and expenses of the investment operations for the first nine months of the year are recognized in the Department's financial statements.

Note 3 (continued)

c) GOVERNMENT OF ALBERTA RESTRUCTURING

On March 13, 2008 the Government of Alberta Departments were restructured adding a new division to the Department under the new name of Finance and Enterprise. As the fiscal year was substantially complete by that date the Department's financial statements as at March 31, 2008 are presented on the previous government structure in place March 12, 2008.

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.

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, 2007 credit unions in Alberta held deposits totaling $13,337 million (2006: $11,785 million).

Substantial assets are available from credit unions to safeguard the Department from risk of loss arising from its potential obligation under the Act.

b) OTHER COMMITMENTS

	($ thousands)	
	2008	**2007**
Service contracts	$ 16,199	$ 11,403
Long-term leases	182	273
	$ 16,381	$ 11,676

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

	($ thousands)		
	2008		
	Service Contracts	**Long-term Leases**	**Total**
2008-09	5,363	91	5,454
2009-10	4,264	91	4,355
2010-11	2,789	-	2,789
2011-12	1,836	-	1,836
2012-13	1,947	-	1,947
	$ 16,199	$ 182	$ 16,381

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, 2008 of government entities amounting to $27,215 million (2007: $23,548 million) are analyzed in Schedules 18. The Department also provides guarantees of other entities amounting to $2 million (2007: $3 million). Schedule 18 is 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.

Note 7 (continued)

b) LEGAL ACTIONS

At March 31, 2008, the Department is jointly or separately named as a defendant in 13 (2007: 17) legal claims. Of the 13, ten have specified amounts totaling approximately $3,811 million. One jointly named claim for $3,750 million concerns the methodology used to calculate pension benefits under three public service pension plans. Three claims have no specified amount. In 2007, 13 claims had specified amounts totaling approximately $3,808 million, including one jointly named claim for $3,750 million and four had no specified amount. Four claims totaling $4 million (2007: six totaling $1,877 million) are covered by the Alberta Risk Management Fund. The resulting loss, if any, from these claims cannot be determined.

In addition, at March 31, 2008, 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, 2008, trust funds under administration were as follows:

	($ millions)	
	2008	**2007**
Local Authorities Pension Plan Fund	$ 15,321	$ 15,060
Public Service Pension Plan Fund	5,726	5,854
The Workers' Compensation Board Accident Fund	2,648	2,894
Universities Academic Pension Plan Fund	2,419	2,522
Management Employees Pension Plan Fund	2,317	2,329
Special Forces Pension Plan Fund	1,435	1,492
Regional Health Authorities and various health institutions construction accounts	841	978
Other	184	215
	$ 30,891	$ 31,344

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 $5 million for the year ended March 31, 2008 (2007: $5 million).

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of $84 million (2006: deficiency of $7 million) and the Public Service Pension Plan reported a deficiency of $92 million (2006: surplus of $153 million). At December 31, 2007 the Supplementary Retirement Plan for Public Service Managers had a surplus of $2 million (2006: surplus of $4 million). 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, 2008, the Bargaining Unit Plan reported a deficiency of $6 million (2007: $0) and the Management, Opted Out and Excluded Plan reported a surplus of $8 million (2007: surplus of $10 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 10 COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to the 2008 presentation.

NOTE 11 APPROVALS OF FINANCIAL STATEMENTS

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

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES

Schedule 1

	($ millions)		
	2008		2007
	Budget	Actual	Actual
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 931	$ 358	$ 1,365
Transfer from Lottery Fund	91	277	390
	1,022	635	1,755
Income taxes			
Personal income tax	7,318	8,271	7,622
Corporate income tax	3,126	4,695	3,606
	10,444	12,966	11,228
Other taxes			
Tobacco tax	890	845	776
Fuel tax	720	751	735
Insurance taxes	240	258	232
Alberta tourism levy	65	72	68
Special broker tax	4	7	10
	1,919	1,933	1,821
Transfers from Government of Canada			
Unconditional subsidy	4	4	4
Investment income	691	932	702
Premiums,fees and licences			
Deposit guarantee fee	17	21	16
Insurance companies, agents and brokers	1	1	1
Other	3	2	1
	21	24	18
Other			
Recovery of expense	27	22	21
Miscellaneous	2	2	3
	29	24	24
	$ 14,130	$ 16,518	$ 15,552

DEDICATED REVENUE INITIATIVES

Schedule 2

	($ millions)		
	2008		
	Authorized Dedicated Revenues	**Actual Dedicated Revenues**	**(Shortfall) [a]/ Excess**
Investment, treasury and risk management	$ 24	$ 20	$ (4)

Investment, treasury and risk management recovers the costs of managing various public sector investment funds and costs of risk management and insurance services. The revenue 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.

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

Schedule 3

	($ millions)		
	2008		2007
	Budget	Actual	Actual Restated (Note 3)
Voted			
Salaries, wages and employee benefits	$ 58	$ 54	$ 50
Supplies and services	26	21	18
Grants	31	31	45
Financial transactions and other	1	1	1
Payments to the Alberta Heritage Savings Trust Fund	-	918	1,000
Pension liability funding	182	197	192
Amortization of tangible capital assets	4	3	3
	$ 302	$ 1,225	$ 1,309
Statutory			
Internal Government Transfers to:			
Access to the Future Fund	$ 46	$ 46	$ 40
Alberta Cancer Prevention Legacy Fund	-	-	500
Alberta Heritage Foundation for Medical Research Endowment Fund	150	150	150
Alberta Heritage Savings Trust Fund to endow Access to the Future Fund	-	-	250
Alberta Heritage Scholarship Fund	-	227	20
Alberta Heritage Science and Engineering Research Endowment Fund	-	-	100
Interest payments on corporate tax refunds	20	16	15
Pension liability funding	78	73	72
Debt servicing costs	188	168	170
Valuation adjustments (Schedule 6)	103	2,337	135
	$ 585	$ 3,017	$ 1,452
	$ 887	$ 4,242	$ 2,761

BUDGET

Schedule 4

($ millions)

	2007-08 Estimates	Adjustments [a]	2007-08 Budget	Authorized Supplementary Estimates [b]	2007-08 Authorized Budget
Revenues					
Internal government transfers	$ 1,022	$ -	$ 1,022	$ -	$ 1,022
Income taxes	10,444	-	10,444	-	10,444
Other taxes	1,919	-	1,919	-	1,919
Transfers from Government of Canada	4	-	4	-	4
Investment income	691	-	691	-	691
Premiums,fees and licences	21	-	21	-	21
Other	29	-	29	-	29
	14,130	-	14,130	-	14,130
Expenses - Directly Incurred					
Voted					
Ministry support services	10	-	10	-	10
Fiscal Planning and Financial Management	38	-	38	-	38
Investment, Treasury and Risk Management	33	-	33	-	33
Financial Sector and Pensions	8	-	8	-	8
Payments to the Alberta Heritage Savings Trust Fund	-	-	-	918	918
Teachers' pre-1992 pensions - liability funding	182	-	182	18	200
Debt servicing costs - school construction	31	-	31	-	31
Dedicated revenue shortfall (Schedule 2)	-	(4)	(4)	-	(4)
	302	(4)	298	936	1,234
Statutory					
Internal government transfers					
Access to the Future Fund	46	-	46	-	46
Alberta Heritage Foundation for Medical Research Endowment Fund	150	-	150	-	150
Interest payments on corporate tax refunds	20	-	20	-	20
Pension liability funding	78	-	78	-	78
Debt servicing costs	188	-	188	-	188
Valuation adjustments (Schedule 6)	1	102	103	-	103
	483	102	585	-	585
	785	98	883	936	1,819
Net operating results	$ 13,345	$ (98)	$ 13,247	$ (936)	$ 12,311
Equipment/inventory purchases	$ 4	$ -	$ 4	$ -	$ 4

a) Adjustments consist of $4 million for dedicated revenue shortfall and $102 million for pension provisions excluded from the Estimates.

b) Supplementary Estimates were approved on November 22, 2007 and April 22, 2008.

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

Schedule 5

($ thousands)

	2007-08 Budget	Authorized Supplementary Estimates (a)	2007-08 Authorized Budget	2007-08 Actual Expense (b)	Unexpended (Over Expended)
VOTED EXPENSES					
Ministry Support Services					
Operating Expense					
Minister's Office	$ 450	$ -	$ 450	$ 510	$ (60)
Deputy Minister's Office	580	-	580	764	(184)
Strategic and Business Services	7,970	-	7,970	7,964	6
Communications	664	-	664	542	122
	9,664	-	9,664	9,780	(116)
Equipment/Inventory Purchases	180	-	180	454	(274)
	9,844	-	9,844	10,234	(390)
Fiscal Planning and Financial Management					
Operating Expense					
Tax and Revenue Administration	31,665	-	31,665	30,107	1,558
Budget and Fiscal Planning	6,171	-	6,171	4,407	1,764
	37,836	-	37,836	34,514	3,322
Equipment/Inventory Purchases	1,784	-	1,784	2,114	(330)
	39,620	-	39,620	36,628	2,992
Investment, Treasury and Risk Management					
Operating Expense					
Investment Management	17,787	-	17,787	13,523	4,264
Investment Administration	9,479	-	9,479	8,100	1,379
Internal Audit	375	-	375	399	(24)
Treasury Management	4,325	-	4,325	2,790	1,535
Risk Management and Insurance	1,441	-	1,441	1,403	38
	33,407	-	33,407	26,215	7,192
Equipment/Inventory Purchases	1,560	-	1,560	206	1,354
	34,967	-	34,967	26,421	8,546
Financial Sector and Pensions					
Operating Expense					
Assistant Deputy Minister's Office	2,242	-	2,242	2,232	10
Regulations of Pensions, Insurance and Financial Institutions	2,907	-	2,907	3,020	(113)
Public Sector Pensions	1,035	-	1,035	715	320
Capital Market Policy	508	-	508	527	(19)
Automobile Insurance Rate Board	1,273	-	1,273	871	402
Corporate Management Services to Alberta Capital Finance Authority	407	-	407	330	77
	8,372	-	8,372	7,695	677
Equipment/Inventory Purchases	250	-	250	-	250
	8,622	-	8,622	7,695	927

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

Schedule 5 (cont'd)

($ thousands)

	2007-08 Budget	Authorized Supplementary Estimates (a)	2007-08 Authorized Budget	2007-08 Actual Expense (b)	Unexpended (Over Expended)
Payments to Alberta Heritage Savings Trust Fund					
Operating Expense	-	918,000	918,000	918,000	-
Teachers' pre-1992 pension liability funding					
Operating Expense	181,694	18,000	199,694	197,233	2,461
Voted Debt Servicing Costs - Grants for School Construction Debenture Interest					
Operating Expense	31,293	-	31,293	31,283	10
	306,040	936,000	1,242,040	1,227,494	14,546
Dedicated Revenue Shortfall (Schedule 2)	(4,875)	-	(4,875)	-	(4,875)
	301,165	936,000	1,237,165	1,227,494	9,671
Summary					
Program Operating Expense	$ 302,266	$ 936,000	$ 1,238,266	$ 1,224,720	$ 13,546
Equipment/Inventory Purchases	3,774	-	3,774	2,774	1,000
	$ 306,040	$ 936,000	$ 1,242,040	$ 1,227,494	$ 14,546
STATUTORY EXPENSES					
Internal Government Transfers to:					
Access to the Future Fund	$ 45,506	$ -	$ 45,506	$ 45,709	$ (203)
Alberta Heritage Foundation for Medical Research Endowment Fund	150,000	-	150,000	150,000	-
Alberta Heritage Scholarship Fund	-	-	-	227,000	(227,000)
Farm credit stability program	51	-	51	46	5
Interest payments on corporate tax refunds	20,000	-	20,000	16,517	3,483
Pension liability funding	77,900	-	77,900	73,880	4,020
Debt servicing costs	188,000	-	188,000	167,733	20,267
Valuation adjustments (Schedule 6)	103,000	-	103,000	2,336,444	(2,233,444)
	$ 584,457	$ -	$ 584,457	$ 3,017,329	$ (2,432,872)
Voted Non-Budgetary Disbursements					
Grants for school construction debenture principal repayment	$ 59,695	$ -	$ 59,695	$ 59,595	$ 100

a) Supplementary Estimates were approved on November 22, 2007 and April 22, 2008.
b) Includes achievement bonus of $3,664 thousand.

VALUATION ADJUSTMENTS

Schedule 6

($ millions)

	2008 Budget	2008 Actual	2007 Actual Restated (Note 3)
Pension provisions	$ 102	$ 2,338	$ 135
Provision for doubtful accounts and loans	-	-	(1)
Provision for employee benefits, guarantees and indemnities	1	(1)	1
	$ 103	$ 2,337	$ 135

SALARY AND BENEFITS DISCLOSURE

Schedule 7

($ thousands)

	2008 Base Salary (1)	2008 Other Cash Benefits (2)	2008 Other Non-Cash Benefits (3)	2008 Total	2007 Total
Senior Officials					
Deputy Minister of Finance (4)(5)	$ 231	$ 55	$ 57	$ 343	$ 299
Executives					
Assistant Deputy Minister - Pensions, Insurance and Financial Institutions	165	25	54	244	251
Assistant Deputy Minister, Treasury and Risk Management	181	37	46	264	222
Assistant Deputy Minister - Tax and Revenue Administration	155	20	40	215	199
Assistant Deputy Minister, Budget and Fiscal Planning (6)	153	24	38	215	104
Chief Investment Officer (7)(9)	226	195	47	468	604
Chief Administrative Officer/Acting Chief Administrative Officer (7)(8)(9)	122	41	30	193	223
Executive Director, Strategic & Business Services	135	21	34	190	181
Director, Human Resources	135	21	34	190	178

(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 pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.

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

(5) The position was occupied by two individuals during 2007.

(6) Position created on October 10, 2006.

(7) Base salary includes regular base pay and market modifier.

(8) Acting Chief Administrative Officer occupied position for the period September 1, 2006 - April 14, 2007.

(9) Position was transferred to the Crown Corporation, Alberta Investment Management Corporation (AIMCo), created effective January 1, 2008.

CASH AND TEMPORARY INVESTMENTS

Schedule 8

	($ millions) 2008	2007
Fixed-income securities (a)		
Corporate	$ 2,590	$ 3,227
Provincial, direct and guaranteed	722	480
Municipal	18	-
Alberta, guaranteed	30	-
Government of Canada, direct and guaranteed	910	113
	4,270	3,820
Deposit in Consolidated Cash Investment Trust Fund (b)	928	1,164
Cash in bank and in transit	191	177
	$ 5,389	$ 5,161

a) Fixed-income securities have an average effective yield of 2.07% (2007: 4.70%) per annum. All of the securities have terms to maturity of less than two years (2007: 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, 2008, securities held by the Fund have an average effective yield of 4.81% per annum (2007: 4.36%). Eighty percent of the securities in the Fund mature within one year (2007: 83%).

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

Schedule 9

	($ millions) 2008	2007
Personal income tax	$ 588	$ 319
Corporate income tax	377	310
Lottery Fund	96	110
Accrued interest receivable	171	124
Alberta Treaury Branches	93	88
Fuel tax	65	66
Insurance corporations tax	68	59
Contributions receivable from credit union deposit corporation [(a)]	17	22
Tobacco tax	8	8
Alberta Tourism Levy	6	6
Other	11	11
	1,500	1,123
Less allowance for doubtful accounts	1	1
	$ 1,499	$ 1,122

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

PORTFOLIO INVESTMENTS

Schedule 10

	($ millions)			
	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities				
Corporate	$ 7,115	$ 7,099	$ 8,566	$ 8,569
Provincial, direct and guaranteed	4,156	4,245	3,276	3,290
Government of Canada, direct and guaranteed	4,477	4,585	2,573	2,579
Municipal	213	217	172	172
	$ 15,961	$ 16,146	$ 14,587	$ 14,610

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 3.5% (2007: 4.2%) per annum and the following terms to maturity: under one year: 39%; one to five years: 54%; five to ten years: 6%; over ten years: 1%.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 11

	($ millions)	
	2008	2007
Agriculture Financial Services Corporation	$ 994	$ 921
Alberta Social Housing Corporation	224	243
Alberta Investment Management Corporation	13	-
	$ 1,231	$ 1,164

OTHER LOANS, ADVANCES AND INVESTMENTS

Schedule 12

	($ millions)	
	2008	**2007**
Loans and advances		
Farm Credit Stability Act	$ 2	$ 4
Board of Governors of the University of Alberta	-	1
	2	5
Investments		
N.A. Properties (1994) Ltd.	2	2
Alberta Investment Management Corporation	4	-
	6	2
	$ 8	$ 7

TANGIBLE CAPITAL ASSETS

Schedule 13

	($ millions)	
	2008	**2007**
	Computer Hardware & Software	**Computer Hardware & Software**
Estimated useful life	5 years	5 years
Historical Cost		
Beginning of year	$ 28	$ 24
Additions	3	4
Disposals	(10)	-
	21	28
Accumulated Amortization		
Beginning of year	18	15
Amortization expense	3	3
Effect of disposals	(6)	-
	15	18
Net book value at March 31st	$ 6	$ 10

ACCOUNTS AND ACCRUED INTEREST PAYABLE

Schedule 14

	($ millions) 2008	2007
Corporate income tax receipts in abeyance	$ 488	$ 424
Corporate income tax refunds payable	324	927
Accrued interest on unmatured debt	27	30
Alberta Heritage Savings Trust Fund	113	8
Other	93	33
	$ 1,045	$ 1,422

UNMATURED DEBT

Schedule 15

	($ millions) 2008				2007	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt						
Floating rate and short-term fixed rate [c]	4.14	0.48	$ 689	$ 695	$ 514	$ 514
Fixed rate long-term [d]	6.97	3.86	1,757	1,988	2,043	2,258
	6.18	2.98	$ 2,446	$ 2,683	$ 2,557	$ 2,772

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 $679 (2007: $679) held by the Canada Pension Plan Investment Fund.

Debt principal repayment requirements at par in each of the next five years, including short-term debt, maturing in 2008-09, and thereafter are as follows:

2008-09	$ 771
2009-10	78
2010-11	378
2011-12	456
2012-13	276
Thereafter	490
	2,449
Unamortized discount	(3)
	$ 2,446

None of the debt has call provisions (2007: none).

UNMATURED DEBT

Schedule 15 (continued)

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, 2008, 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.

	Notional Amount (1)	Net Fair Value	Notional Amount	Net Fair Value
Interest rate swaps	$ 250	3	$ 275	5

(1) Maturing in 2008-09: $250 million.

PENSION OBLIGATIONS

Schedule 16

	($ millions)	
	2008	**2007**
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 698	$ 723
Members of the Legislative Assembly Pension Plan (b)	50	50
Universities Academic Pension Plan (c)	205	196
Management Employees Pension Plan (d)	20	-
Provincial Judges and Masters in Chambers Pension Plan (e)	4	-
Teachers' Pension Plans (f)	6,776	4,440
	7,753	5,409
Obligations to pension plans for employees of organizations outside the government sector		
Special Forces Pension Plan ©	50	57
	$ 7,803	$ 5,466

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.

PENSION OBLIGATIONS

Schedule 16 (continued)

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.

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. As of March 31, 2008 there are no unfunded liabilities for the Public Service Pension Plan.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. 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 Plan. The rates in effect at March 31, 2008 are 7.00% of *capped salary* for plan members and 16.16% of *capped salary* for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

f) During the year the Department of Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plans. The extrapolated value of this obligation at March 31, 2008 is $6,776 million. The Department currently funds 100% of this obligation.

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.

PENSION OBLIGATIONS

Schedule 16 (continued)

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
Universities Academic Pension Plan	December 31, 2006	4.00	2.70	6.70
Management Employees Pension Plan	December 31, 2006	4.00	2.75	6.75
Provincial Judges and Masters in Chambers Pension Plan	December 31, 2005	3.50	3.00	6.50
Teachers' Pension Plans	August 31, 2006	4.25	3.00	7.25
Special Forces Pension Plan	December 31, 2006	4.00	2.50	6.50

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits, including net deferred losses of $17 million (2007: deferred gains of $47 million). Unfunded liabilities were extrapolated to March 31, 2008.

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 17

	($ millions)	
	2008	**2007**
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 256	$ 315
Vacation entitlements	4	5
	$ 260	$ 320

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 18

	($ millions)			
	2008			**2007**
	Department of Finance	**Others**	**Total**	**Total**
Debentures				
Alberta Capital Finance Authority	$ -	$ 5,739	$ 5,739	$ 4,974
Alberta Social Housing Corporation	224	76	300	321
	224	5,815	6,039	5,295
Deposits				
Alberta Treasury Branches	-	21,176	21,176	18,253
	$ 224	$ 26,991	$ 27,215	$ 23,548

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

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 18 (continued)

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

Entity	Date	Position	($ millions) 2008	2007
Alberta Capital Finance Authority	December 31, 2007	Shareholders' Equity	$ 15	$ 16
Alberta Social Housing Corporation	March 31, 2008	Surplus	$ 534	$ 493
Alberta Treasury Branches	March 31, 2008	Equity	$ 1,668	$ 1,623

RELATED PARTY TRANSACTIONS

Schedule 19

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 because the Corporation has the authority to pay its retained earnings, which amounted to $21 million at December 31, 2007 (2006: $16 million), to municipal and other shareholders, which have borrowed money from the Corporation. During the 2008 fiscal year, the Department paid $91 million (2007: $103 million) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions 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.

RELATED PARTY TRANSACTIONS

Schedule 19 (continued)

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.

($ millions)

	Entities in the Ministry		Other Entities	
	2008	**2007**	**2008**	**2007**
Revenues				
Transfers	$ 358	$ 1,365	$ 277	$ 390
Interest	3	3	67	67
Charges for services	25	20	32	-
	$ 386	$ 1,388	$ 376	$ 457
Expenses				
Cost of services	$ 1,295	$ 2,027	$ 79	$ 79
Assets				
Accounts receivable	$ 94	$ 88	$ 97	$ 110
Accrued interest receivable	1	1	14	12
Loans, advances and investments	19	2	1,218	1,163
	$ 114	$ 91	$ 1,329	$ 1,285
Liabilities				
Accounts and accrued interest payable	$ 113	$ 8	$ -	$ -
School Construction Debentures	-	-	256	315
	$ 113	$ 8	$ 256	$ 315

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 20.

ALLOCATED COSTS BY PROGRAM

Schedule 20

($ millions)

Program	Expenses [1]	Expenses incurred by Others [2]	Valuation Adjustments [3]	Total 2008	Total 2007
					Restated (Note 3)
Ministry support services	$ 10	$ 3	$ -	$ 13	$ 12
Fiscal planning and fiscal management	35	2	-	37	32
Investment, treasury and risk management	26	1	(1)	26	75
Financial sector and pensions	8	1	-	9	7
Payments to Alberta Heritage Savings Trust Fund	918	-	-	918	1,000
Teachers' pension liability funding	197	-	-	197	152
Transfers and debt servicing costs and pensions	711	-	2,338	3,049	1,491
	$ 1,905	$ 7	$ 2,337	$ 4,249	$ 2,769

Total allocated costs of $4,249 million are comprised of total expenses per Statement of Operations amounting to $4,242 million and expenses incurred by others amounting to $7 million.

1) Expenses – directly incurred as per Statement of Operations, excluding valuation adjustments.
2) Includes accommodation and air travel $3 million, corporate and audit services $2 million and legal services $2 million.
3) Includes vacation pay of negative $1 million and pension provisions of $2,338 million.

Regulated
Funds

ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Statement of Financial Position

March 31, 2008

	($ thousands)	
	2008	2007
Assets		
Portfolio investments (Note 3)	$ 487,110	$ 490,830
Net Assets (Note 5)	$ 487,110	$ 490,830

Statement of Operations and Net Assets

For the Year Ended March 31, 2008

	($ thousands)		
	2008		2007
	Budget	Actual	Actual
Net investment income (Note 6)	$ 20,000	$ 21,280	$ 15,830
Transfers from the General Revenue Fund (Note 5a)	-	-	500,000
Transfers to the Ministry of Health and Wellness (Note 5b)	(25,000)	(25,000)	(25,000)
Change in net assets	$ (5,000)	(3,720)	490,830
Net assets at beginning of period		490,830	-
Net assets at end of period		$ 487,110	$ 490,830

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

Statement of Cash Flows

For the Year Ended March 31, 2008

	($ thousands)	
	2008	2007
Operating transactions		
Net investment income	$ 21,280	$ 15,830
Non-cash items included in net investment income	(207)	-
Cash provided by operating transactions	21,073	15,830
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	13,000	-
Purchase of investments	(20,549)	(479,175)
Cash applied to investing transactions	(7,549)	(479,175)
Transfers		
Transfers from the General Revenue Fund	-	500,000
Transfers to the Foundation	(25,000)	(25,000)
Cash (applied to) provided by transfers	(25,000)	475,000
(Decrease) increase in cash	(11,476)	11,655
Cash at beginning of period	11,655	-
Cash at end of period	$ 179	$ 11,655
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 179	$ 11,655

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

Notes to Financial Statements

March 31, 2008
($ 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 initiatives such as research, education, public policy development and social marketing initiatives. The Fund commenced operations on July 7, 2006.

The Fund invests the transfers made to the Fund. The portfolio is comprised of high-quality fixed-income investments. The Act states that the Minister of Finance and Enterprise 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 and Enterprise 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 accounting policies of significance to the Fund are as follows:

a) PORTFOLIO INVESTMENT

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 AND EXPENSES

Investment income and expenses, as reported in Note 6, are recorded on the accrual basis. Investment income is accrued when 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.

Changes in fair value of derivative contracts recorded at fair value are included in investment income except for certain derivative contracts 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.

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. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

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.

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 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.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include credit default swaps. 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 credit default swaps at the reporting date is valued based on discounted cash flows using current market yields and calculated default probabilities.

NOTE 3 PORTFOLIO INVESTMENTS

	($ thousands)					
	2008			2007		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-Income Securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 179	$ 179	-	$ 11,655	$ 11,655	2.4
Short Term Bond Pool (b)	486,931	492,722	100.0	479,175	478,925	97.6
Total Investments	$ 487,110	$ 492,901	100.0	$ 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, 2008, securities held by the Fund have an average effective market yield of 4.81% per annum (2007: 4.36% per annum).

b) The Fund holds a 5.0% interest in the Short Term Bond Pool, which holds fixed-income securities. As at March 31, 2008, securities held by the Pool have an average effective market yield of 3.87% per annum (2007: 4.23% per annum) and the following term structure based on principal amount: under 1 year: 10% (2007: 7%); 1 to 5 years: 81% (2007: 84%); 5 to 10 years: 8% (2007: 8%); 10 to 20 years: 0% (2007: 0%); over 20 years: 1% (2007: 1%).

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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. 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.

Note 4 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2008 (in millions):

	Maturity			2008		2007	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Credit default swap contracts	-	100%	-	2,500	954	-	-
				$ 2,500	$ 954	$ -	$ -

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

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

NOTE 5 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:

	($ thousands)	
	Cumulative since 2006	
	2008	2007
Transfers from the General Revenue Fund (a)	$ 500,000	$ 500,000
Accumulated investment income	37,110	15,830
Accumulated transfers to the Ministry (b)	(50,000)	(25,000)
Net Assets, at cost	$ 487,110	$ 490,830
Net Assets, at fair value	$ 492,901	$ 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.

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

NOTE 6 NET INVESTMENT INCOME

	($ thousands)	
	2008	2007
Deposit and fixed-income securities	$ 21,282	$ 15,831
Investment expenses	(2)	(1)
Net income	$ 21,280	$ 15,830

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

Investment income for the year ended March 31, 2008 includes writedowns totalling $261 (2007: nil).

NOTE 7 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, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

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

Statement of Financial Position

March 31, 2008

	($ thousands)	
	2008	**2007**
Assets		
Portfolio investments (Note 3)	$ 1,502,089	$ 1,369,616
Receivable from sale of investments	9,003	700
	$ 1,511,092	**$ 1,370,316**
Liabilities		
Liabilities for investment purchases	$ -	$ 503
Administration expense payable	70	93
	70	596
Net Assets (Note 6)	**1,511,022**	**1,369,720**
	$ 1,511,092	**$ 1,370,316**

Statement of Operations and Net Assets

For the year ended March 31, 2008

	($ thousands)		
	2008		**2007**
	Budget	**Actual**	**Actual**
Investment Income		$ 63,263	$ 149,608
Investment Expenses (Note 8)		(5,961)	(4,378)
Net investment income (Note 7)	$ 99,431	57,302	145,230
Transfers from the General Revenue Fund (Note 6b)	150,000	150,000	150,000
Transfers to the Alberta Heritage Foundation for Medical Research (Note 6c)	(64,000)	(66,000)	(55,000)
Change in net assets	**$ 185,431**	141,302	240,230
Net assets at beginning of year		1,369,720	1,129,490
Net assets at end of year		**$ 1,511,022**	**$ 1,369,720**

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

Statement of Cash Flows

For the year ended March 31, 2008

	($ thousands)	
	2008	**2007**
Operating transactions		
Net investment income	$ 57,302	$ 145,230
Non-cash items included in net investment income	(8,281)	(14,843)
	49,021	130,387
(Increase) decrease in receivables	(8,303)	8,800
(Decrease) increase in payables	(526)	593
Cash provided by operating transactions	40,192	139,780
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	216,983	139,473
Purchase of investments	(350,434)	(364,160)
Cash applied to investing transactions	(133,451)	(224,687)
Transfers		
Transfers from the General Revenue Fund	150,000	150,000
Transfers to the Foundation	(66,000)	(55,000)
Cash provided by transfers	84,000	95,000
(Decrease) increase in cash	(9,259)	10,093
Cash at beginning of year	17,729	7,636
Cash at end of year	$ 8,470	$ 17,729
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 8,470	$ 17,729

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

Notes to the Financial Statements

March 31, 2008
(All dollar amounts in thousands unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund ("the Fund") operates under the authority of the *Alberta 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 AND EXPENSES

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when 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, which may vary from actual income and expenses.

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

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts 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.

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. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

Note 2 (continued)

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, 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.

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 earnings multiple analysis.

iv) The estimated 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.

Note 2 (continued)

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.

NOTE 3 PORTFOLIO INVESTMENTS

	($ thousands)					
	2008			2007		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,470	$ 8,470	0.6	$ 17,729	$ 17,729	1.2
Currency Alpha Pool (b)	2,405	2,639	0.2	1,902	2,113	0.1
Tactical Asset Allocation Pool (c)	2,522	2,290	0.1	5,031	4,945	0.3
	13,397	**13,399**	**0.9**	**24,662**	**24,787**	**1.6**
Absolute Return Strategies (d)	**92,768**	**89,450**	**5.9**	**71,454**	**76,766**	**5.2**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	311,270	307,132	20.1	308,818	309,080	20.7
Private Mortgage Pool (f)	45,769	48,232	3.2	37,790	40,073	2.7
	357,039	**355,364**	**23.3**	**346,608**	**349,153**	**23.4**
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (g)	112,158	162,421	10.6	104,189	148,067	10.0
Foreign Private Real Estate Pool (h)	6,201	5,753	0.4	6,382	6,401	0.4
	118,359	**168,174**	**11.0**	**110,571**	**154,468**	**10.4**
Private Income (i)	**19,751**	**21,575**	**1.4**	**14,917**	**16,122**	**1.1**
Timberland (j)	**4,347**	**5,796**	**0.4**	**4,242**	**5,919**	**0.4**
Equities						
Canadian Equities **(Schedule C)**						
Canadian Structured Equity Pool (k)	59,067	52,270	3.4	100,073	98,879	6.7
Canadian Pooled Equity Fund (l)	65,567	67,079	4.4	54,987	67,967	4.6
Canadian Equity Enhanced Index Pool (m)	32,756	34,056	2.2	30,221	34,730	2.3
Canadian Large Cap Equity Pool (n)	26,575	23,065	1.5	24,685	24,457	1.6
Growing Equity Income Pool (o)	14,522	14,458	0.9	11,482	13,895	0.9
Canadian Multi-Cap Pool (p)	73,734	71,121	4.7	29,329	29,856	2.0
Tactical Asset Allocation Pool Canadian futures contracts (c)	-	-	-	(20,452)	(20,452)	(1.4)
	272,221	**262,049**	**17.1**	**230,325**	**249,332**	**16.7**
United States Equities **(Schedule D)**						
US Structured Equity Pool (q)	170,798	172,579	11.3	162,246	176,790	11.9
US Small/Mid Cap Equity Pool (r)	35,105	34,606	2.3	30,046	34,028	2.3
Portable Alpha United States Equity Pool (s)	64,542	64,224	4.2	59,595	63,169	4.2
Growing Equity Income Pool (o)	4,374	3,896	0.3	4,532	4,576	0.3
Tactical Asset Allocation Pool US futures contracts (c)	-	-	-	20,223	20,223	1.4
	274,819	**275,305**	**18.1**	**276,642**	**298,786**	**20.1**
Non-North American Equities **(Schedule E)**						
EAFE Active Equity Pool (t)	235,404	219,153	14.4	194,921	214,087	14.4
EAFE Structured Equity Pool (u)	60,782	59,703	3.9	58,337	57,703	3.9
Emerging Market Equity Pool (v)	10,707	10,190	0.7	11,450	15,027	1.0
	306,893	**289,046**	**19.0**	**264,708**	**286,817**	**19.3**
Private Equities (i)	**42,495**	**44,739**	**2.9**	**25,487**	**27,363**	**1.8**
Total Investments (w)	**$ 1,502,089**	**$ 1,524,897**	**100.0**	**$ 1,369,616**	**$ 1,489,513**	**100.0**

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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, 2008, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2008	**2007**
Absolute Return Strategy Pool	8.5	7.5
Canadian Equity Enhanced Equity Pool	8.2	2.5
Canadian Large Cap Equity Pool	1.2	1.2
Canadian Multi-Cap Pool	4.9	4.4
Canadian Pooled Equity Fund	5.3	5.1
Canadian Structured Equity Pool	4.2	4.5
Currency Alpha Pool	3.4	3.4
EAFE Active Equity Pool	3.4	3.3
EAFE Structured Equity Pool	5.0	4.9
Emerging Markets Equity Pool	2.2	2.2
Foreign Private Equity Pool (02)	7.0	7.0
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	8.2
Global Private Equity Pool (08)	4.6	-
Growing Equity Income Pool	5.3	5.1
Portable Alpha United States Equity Pool	9.3	9.0
Private Equity Pool	6.6	6.6
Private Equity Pool (02)	7.5	7.5
Private Equity Pool (04)	6.4	6.4
Private Income Pool	6.0	6.0
Private Income Pool 2	6.9	6.9
Private Mortgage Pool	2.6	2.6
Private Real Estate Pool	3.3	3.2
Tactical Asset Allocation Pool	7.8	7.8
Timberland Pool	6.5	6.5
US Small/Mid Cap Equity Pool	2.7	2.6
US Structured Equity Pool	4.4	4.1
Universe Fixed Income Pool	3.2	2.9

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, 2008, securities held by the Fund have an average effective market yield of 4.81% per annum (2007: 4.36% 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.

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, 2008, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

Note 3 (continued)

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 is managed with the objective of providing above average returns compared to the total return of the DEX 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, 2008, securities held by the Pool have an average effective market yield of 5.0% per annum (2007: 4.5% per annum) and the following term structure based on principal amount: under 1 year: 4% (2007: 3%); 1 to 5 years: 32% (2007: 33%); 5 to 10 years: 34% (2007: 34%); 10 to 20 years: 12% (2007: 11%); and over 20 years: 18% (2007: 19%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.5%), specialty mortgages (1.0%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2008, securities held by the Pool have an average effective market yield of 4.91% per annum (2007: 5.09% per annum) and the following term structure based on principal amount: under 1 year: 3% (2007: 6%); 1 to 5 years: 12% (2007: 15%); 5 to 10 years: 61% (2007: 54%); 10 to 20 years: 5% (2007: 5%); and over 20 years: 19% (2007: 20%).

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 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, PEP02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. 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 and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

k) The Canadian Structured Equity Pool 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.

Note 3 (continued)

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.

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 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.

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) 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 multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the small cap and mid cap US 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 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)).

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 2008-2009 fiscal year:

Equities	56.5%
Fixed-income securities	21.5%
Inflation sensitive	15.0%
Cash and Absolute Return Strategies	7.0%

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.

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.

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.

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

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.

Note 5 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2008.

	Maturity			2008		2007	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				($ thousands)			
Equity index swap contracts	94%	6%	-	$ 369,769	$ 1,039	$ 373,027	$ (421)
Interest rate swap contracts	6%	16%	78%	199,529	(2,374)	215,790	(607)
Forward foreign exchange contracts	100%	-	-	256,479	(4,397)	197,840	(283)
Cross-currency interest rate swaps	15%	54%	31%	89,153	191	102,783	3,130
Credit default swap contracts	2%	20%	78%	345,236	(2,382)	476,313	(1,542)
Bond index swap contracts	100%	-	-	35,178	2,387	110,684	297
Equity index futures contracts	100%	-	-	62,876	2,231	114,457	2,782
Swap option contracts	44%	-	56%	165,540	63	351,191	22
				$ 1,523,760	$ (3,242)	$ 1,942,085	$ 3,378

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

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

NOTE 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	
	2008	2007
	($ thousands)	
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 300,000	$ 300,000
Transfers from the General Revenue Fund (b)	500,000	350,000
Accumulated investment income	1,756,022	1,698,720
Accumulated transfers to the Foundation (c)	(1,045,000)	(979,000)
Net Assets, at cost	**$ 1,511,022**	**$ 1,369,720**
Net Assets, at fair value	**$ 1,533,830**	**$ 1,489,617**

(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 $500 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 $66 million to the Foundation during the year.

NOTE 7 NET INVESTMENT INCOME

	($ thousands)	
	2008	**2007**
Canadian equities	$ 36,661	$ 35,707
Real estate	18,912	12,187
Deposit and fixed-income securities	17,840	19,664
Absolute return strategies	9,589	1,061
Private equities	3,384	6,531
Non-North American equities	2,201	50,484
Private income	1,597	863
Timberland	578	161
United States equities	(33,460)	18,572
Net investment income	$ 57,302	$ 145,230

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, 2008 includes writedowns of $22,938 (2007: $3,320).

NOTE 8 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by the investment operations of Alberta Finance and Enterprise are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	($ thousands)	
	2008	**2007**
Total Investment expenses	$ 5,961	$ 4,378
Percent of net assets at fair value	0.39%	0.29%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (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	-2.4%	11.2%
Benchmark return (1)	-1.7%	10.5%
Value added (lost) from active management	-0.7%	0.7%

1) The overall benchmark return for year ended March 31, 2008 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to 2008 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 4,101	$ 4,101	$ 363	$ 363
Fixed-income securities (a)				
Corporate, public and private	240,218	234,680	226,506	226,133
Government of Canada, direct and guaranteed	69,199	70,834	74,480	74,018
Provincial, direct and guaranteed:				
Alberta	94	98	109	113
Other provinces	40,659	42,881	43,307	46,662
Municipal	16	18	118	139
	350,186	348,511	344,520	347,065
Receivable from sale of investments and accrued investment income	6,054	6,054	3,440	3,440
Accounts payable and accrued liabilities	(3,302)	(3,302)	(1,715)	(1,715)
	2,752	2,752	1,725	1,725
	$ 357,039	$ 355,364	$ 346,608	$ 349,153

a) Fixed income securities held as at March 31, 2008 have an average effective market yield of 4.98% per annum (2007: 4.57% per annum) and the following term structure based on principal amount:

	2008	**2007**
	%	
under 1 year	4	4
1 to 5 years	29	31
5 to 10 years	38	36
10 to 20 years	11	10
over 20 years	18	19
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 224	$ 224	$ 164	$ 164
Real estate (a)				
Office	44,147	72,312	44,857	71,035
Retail	36,196	50,712	32,292	46,689
Industrial	20,109	24,068	16,722	18,496
Residential	5,545	9,168	4,903	6,470
	105,997	156,260	98,774	142,690
Foreign Private Real Estate Pool	6,201	5,753	6,401	6,382
Participation units	5,861	5,861	5,141	5,141
Accrued income and accounts receivable	76	76	91	91
	$ 118,359	$ 168,174	$ 110,571	$ 154,468

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

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Ontario	$ 62,992	$ 83,910	$ 61,026	$ 83,446
Alberta	28,861	55,678	24,467	43,412
Quebec	12,165	13,314	11,428	13,102
British Columbia	1,979	3,358	1,853	2,730
	$ 105,997	$ 156,260	$ 98,774	$ 142,690

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 5,933	$ 5,933	$ 1,653	$ 1,653
Public equities (a) (b)				
Consumer discretionary	16,287	12,837	15,546	15,364
Consumer staples	7,344	5,923	7,046	6,616
Energy	67,768	69,154	60,268	62,976
Financials	79,210	71,045	73,448	81,780
Health care	542	367	1,876	1,686
Industrials	14,998	13,688	11,143	12,806
Information technology	9,772	12,248	9,510	10,308
Materials	42,262	43,602	33,764	38,125
Telecommunication services	14,392	14,215	12,903	14,878
Utilities	2,581	2,185	2,198	2,170
	255,156	245,264	227,702	246,709
Pooled Funds	11,304	11,024	-	-
Receivable from sale of investments and accrued investment income	1,530	1,530	3,731	3,731
Accounts payable and accrued liabilities	(1,702)	(1,702)	(2,761)	(2,761)
	(172)	(172)	970	970
	$ 272,221	$ 262,049	$ 230,325	$ 249,332

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 $90,928 (2007: $112,941).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 7,994	$ 7,994	$ 2,042	$ 2,042
Public equities (a) (b)				
Consumer discretionary	26,513	25,901	29,996	32,450
Consumer staples	27,497	27,811	25,345	26,935
Energy	32,609	34,945	25,602	28,604
Financials	48,931	47,118	59,477	63,673
Health care	32,470	32,479	33,609	35,855
Industrials	35,437	35,409	32,065	34,824
Information technology	43,770	43,457	41,279	44,460
Materials	11,266	11,843	9,317	10,245
Telecommunication services	8,676	8,745	8,854	9,675
Utilities	10,680	10,630	10,145	11,112
	277,849	278,338	275,689	297,833
Pooled Funds	544	541	-	-
	278,393	278,879	275,689	297,833
Receivable from sale of investments and accrued investment income	1,293	1,293	1,761	1,761
Accounts payable and accrued liabilities	(12,861)	(12,861)	(2,850)	(2,850)
	(11,568)	(11,568)	(1,089)	(1,089)
	$ 274,819	$ 275,305	$ 276,642	$ 298,786

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 $204,055 (2007: $217,543).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule E

($ thousands)

	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 5,222	$ 5,222	$ 3,023	$ 3,023
Public equities (a) (b)				
Consumer discretionary	33,688	30,639	31,795	34,262
Consumer staples	25,066	24,563	17,611	18,961
Energy	25,500	24,023	17,690	18,627
Financials	64,346	58,306	71,868	78,227
Health care	23,676	20,302	17,049	17,081
Industrials	41,174	40,298	35,608	40,431
Information technology	18,907	17,019	18,692	18,659
Materials	26,831	26,769	18,335	20,591
Telecommunication services	22,627	21,906	16,056	16,759
Utilities	15,918	15,569	12,626	14,142
	297,733	279,394	257,330	277,740
Emerging markets pooled funds	5,150	5,639	4,570	6,269
	302,883	285,033	261,900	284,009
Receivable from sale of investments and accrued investment income	4,199	4,199	3,474	3,474
Accounts payable and accrued liabilities	(5,411)	(5,408)	(3,689)	(3,689)
	(1,212)	(1,209)	(215)	(215)
	$ 306,893	$ 289,046	$ 264,708	$ 286,817

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 $64,724 (2007 $59,282).

b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's

Schedule E (continued)

Public equities by geographic location are as follows:

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
United Kingdom	$ 68,449	$ 60,409	$ 55,176	$ 58,397
Japan	60,284	53,621	55,586	55,303
France	32,888	31,514	29,285	31,406
Germany	28,241	27,249	20,228	22,289
Switzerland	18,536	18,799	13,366	15,539
Netherlands	12,306	11,459	11,202	13,458
Spain	12,357	12,793	10,542	11,518
Australia	12,044	11,895	10,065	10,872
Italy	10,514	10,045	8,135	9,150
Hong Kong	7,312	6,906	4,487	4,894
Other	39,952	40,343	43,828	51,183
	$ 302,883	$ 285,033	$ 261,900	$ 284,009

SCHEDULE OF INVESTMENT RETURNS

Schedule F

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	**2008**	**2007**	**2006**	**2005**	**2004**	**Return**
Short-term fixed income	**4.3**	**6.0**	**2.9**	**2.3**	**3.0**	**3.7**
DEX 91-day T-Bill Index	*4.6*	*4.2*	*2.8*	*2.2*	*3.0*	*3.4*
Value added (lost) from active management	(0.3)	1.8	0.1	0.1	0.0	0.3
Absolute return strategies	**1.5**	**11.4**	**5.2**	**5.5**	**10.7**	**6.8**
HFRX Global Hedged Index	*(1.5)*	*5.8*	*10.1*	*8.1*	*6.7*	*5.8*
Value added (lost) from active management	3.0	5.6	(4.9)	(2.6)	4.0	1.0
Long-term fixed income	**3.2**	**5.9**	**5.7**	**5.6**	**11.6**	**6.4**
DEX Universe Bond Index	*5.8*	*5.5*	*4.9*	*5.0*	*10.8*	*6.4*
Value added (lost) from active management	(2.6)	0.4	0.8	0.6	0.8	0.0
Real estate	**16.5**	**24.5**	**20.7**	**16.9**	**7.5**	**17.1**
IPD Large Institutional All Property Index	*14.5*	*18.3*	*19.4*	*7.1*	*5.5*	*12.8*
Value added (lost) from active management	2.0	6.2	1.3	9.8	2.0	4.3
Private income	**12.4**	**19.1**	**21.3**	**5.3**	**n/a**	**n/a**
CPI plus 6%	*7.8*	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*
Value added (lost) from active management	4.6	11.1	13.1	(2.8)	n/a	n/a
Timberland Investments	**6.5**	**54.0**	**(4.9)***	**n/a**	**n/a**	**n/a**
CPI plus 4%	*5.8*	*6.0*	*4.2 **	*n/a*	*n/a*	*n/a*
Value added (lost) from active management	0.7	48.0	(9.1)	n/a	n/a	n/a
Canadian equities	**2.4**	**12.9**	**28.8**	**15.4**	**36.3**	**18.6**
S&P/TSX Composite Index	*4.0*	*11.4*	*28.4*	*13.9*	*37.7*	*18.5*
Value added (lost) from active management	(1.6)	1.5	0.4	1.5	(1.4)	0.1
United States equities	**(17.7)**	**10.5**	**8.6**	**(1.7)**	**22.2**	**3.5**
S&P 1500 Index	*(15.7)*	*9.9*	*9.1*	*(1.0)*	*20.5*	*3.8*
Value added (lost) from active management	(2.0)	0.6	(0.5)	(0.7)	1.7	(0.3)
Non-North American equities	**(12.4)**	**17.6**	**23.8**	**7.4**	**40.9**	**14.1**
MSCI EAFE Index	*(13.2)*	*18.7*	*20.0*	*6.2*	*40.5*	*13.0*
Value added (lost) from active management	0.8	(1.1)	3.8	1.2	0.4	1.1
Private equities	**9.6**	**18.6**	**13.3**	**(0.9)**	**1.1**	**8.1**
Consumer Price Index (CPI) plus 8%	*9.8*	*10.0*	*10.2*	*10.1*	*8.7*	*9.8*
Value added (lost) from active management	(0.2)	8.6	3.1	(11.0)	(7.6)	(1.7)
Overall	**(2.4)**	**12.8**	**15.6**	**7.5**	**24.0**	**11.2**
Policy Benchmark	***(1.7)***	***11.4***	***14.7***	***6.0***	***23.2***	***10.5***
Value added (lost) from active management	**(0.7)**	**1.4**	**0.9**	**1.5**	**0.8**	**0.7**

* Actual and benchmark returns are for nine months.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Statement of Financial Position

March 31, 2008

	($ thousands)	
	2008	2007
Assets		
Portfolio investments (Note 3)	$ 16,339,038	$ 14,972,327
Receivable from sale of investments and accrued income	20,532	52,575
Due from the General Revenue Fund	112,966	7,696
	$ 16,472,536	$ 15,032,598
Liabilities		
Liabilities for investment purchases	$ 60,013	$ 4,419
Administration expense payable	711	234
	60,724	4,653
Net Assets (Note 6)	16,411,812	15,027,945
	$ 16,472,536	$ 15,032,598

Statement of Operations and Net Assets

Year Ended March 31, 2008

	($ thousands)		
	2008		2007
	Budget	Actual	Actual
Investment income		$ 887,974	$ 1,703,069
Investment expenses (Note 8)		(64,377)	(55,063)
Net income (Note 7)	$ 1,214,806	823,597	1,648,006
Transfers to the General Revenue Fund (Note 6c)	(930,806)	(357,730)	(1,364,620)
Amount retained for inflation-proofing (Note 6c)	284,000	465,867	283,386
Transfers from the General Revenue Fund (Notes 6a & 6b)	-	918,000	1,250,000
Change in net assets	$ 284,000	1,383,867	1,533,386
Net Assets at beginning of year		15,027,945	13,494,559
Net Assets at end of year		$ 16,411,812	$ 15,027,945

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

Statement of Cash Flows

March 31, 2008

	($ thousands)	
	2008	2007
Operating transactions		
Net income	$ 823,597	$ 1,648,006
Non-cash items included in net income	(165,243)	(240,024)
	658,354	1,407,982
Decrease (increase) in accounts receivable	32,043	(26,120)
Increase (decrease) in accounts payable	56,071	(131,189)
Cash provided by operating transactions	746,468	1,250,673
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,507,311	1,888,728
Purchase of investments	(2,513,532)	(3,146,216)
Cash applied to investing transactions	(1,006,221)	(1,257,488)
Transfers		
Transfers from the General Revenue Fund	918,000	1,250,000
Transfers to the General Revenue Fund	(357,730)	(1,364,587)
Increase in amounts due from the General Revenue Fund	(105,270)	(85,413)
Cash provided by (applied to) transfers	455,000	(200,000)
Increase (decrease) in cash	195,247	(206,815)
Cash at beginning of year	22,205	229,020
Cash at end of year	$ 217,452	$ 22,205
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 217,452	$ 22,205

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

Notes to the Financial Statements

For The Year Ended March 31, 2008
($ 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 AND EXPENSES

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when 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, which may vary from actual income and expenses.

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

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts 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.

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. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

Note 2 (continued)

c) FOREIGEN 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 and other investments where no readily available market exists. The fair values of these investments are based on estimates. 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) 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 earnings multiple analysis.

iv) The estimated 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.

Note 2 (continued)

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.

NOTE 3 PORTFOLIO INVESTMENTS

	($ thousands) 2008			($ thousands) 2007		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 217,452	$ 217,452	1.3	$ 22,205	$ 22,205	0.1
Currency Alpha Pool (b)	26,729	28,894	0.2	21,210	23,119	0.2
Tactical Asset Allocation Pool (c)	26,221	24,031	0.1	52,952	53,077	0.3
	270,402	270,377	1.6	96,367	98,401	0.6
Absolute Return Strategies (d)	910,116	891,219	5.2	818,257	884,734	5.4
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	4,457,787	4,407,309	26.0	4,371,914	4,397,434	26.6
Private Mortgage Pool (f)	618,217	626,435	3.7	584,524	591,153	3.6
Loans, directly held (g)	140,592	140,592	0.8	98,148	98,148	0.6
	5,216,596	5,174,336	30.5	5,054,586	5,086,735	30.8
Inflation Sensitive						
Real Estate (Schedule B)						
Private Real Estate Pool (h)	1,147,775	1,747,104	10.3	1,133,047	1,675,993	10.1
Foreign Private Real Estate Pool (i)	84,719	78,604	0.5	87,122	87,379	0.6
	1,232,494	1,825,708	10.8	1,220,169	1,763,372	10.7
Private Income (j)	259,595	284,505	1.7	200,263	217,182	1.3
Timberland (k)	58,747	78,307	0.5	57,260	79,904	0.5
Equities						
Canadian (Schedule C)						
Canadian Structured Equity Pool (l)	572,569	545,278	3.2	954,429	1,018,876	6.2
Canadian Pooled Equity Fund (m)	632,635	685,872	4.0	557,526	717,411	4.3
Canadian Equity Enhanced Index Pool (n)	318,749	335,160	2.0	308,326	353,031	2.1
Canadian Large Cap Equity Pool (o)	286,593	253,479	1.5	253,862	255,284	1.5
Growing Equity Income Pool (p)	145,676	144,895	0.9	123,882	148,362	0.9
Canadian Multi-Cap Pool (q)	727,349	703,115	4.1	305,358	310,315	1.9
Tactical Asset Allocation Pool Canadian futures	-	-	-	(219,523)	(219,523)	(1.3)
	2,683,571	2,667,799	15.7	2,283,860	2,583,756	15.6
United States (Schedule D)						
U.S. Structured Equity Pool (r)	1,551,278	1,683,827	9.9	1,412,381	1,618,510	9.8
U.S. Small/Mid Cap Equity Pool (s)	303,386	297,629	1.7	276,578	309,333	1.8
Portable Alpha United States Equity Pool (t)	558,475	552,363	3.3	561,620	590,884	3.6
Growing Equity Income Pool (p)	43,883	39,050	0.2	48,902	48,858	0.3
Tactical Asset Allocation Pool US futures	-	-	-	217,069	217,069	1.3
	2,457,022	2,572,869	15.1	2,516,550	2,784,654	16.8
Non-North American (Schedule E)						
EAFE Active Equity Pool (u)	2,059,840	1,996,174	11.7	1,746,326	1,979,824	12.0
EAFE Structured Equity Pool (v)	521,765	501,831	3.0	492,573	475,031	2.9
Emerging Markets Equity Pool (w)	109,504	104,176	0.6	127,180	166,923	1.0
	2,691,109	2,602,181	15.3	2,366,079	2,621,778	15.9
Private Equities (j)	559,386	604,553	3.6	358,936	405,244	2.4
Total Investments (x)	$ 16,339,038	$ 16,971,854	100.0	$ 14,972,327	$ 16,525,760	100.0

Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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, 2008, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2008	2007
Absolute Return Strategy Pool	84.2	86.1
Canadian Equity Enhanced Index Pool	80.6	25.2
Canadian Large Cap Equity Pool	13.6	13.0
Canadian Multi-Cap Pool	48.3	45.5
Canadian Pooled Equity Fund	53.9	54.2
Canadian Structured Equity Pool	43.8	46.8
Currency Alpha Pool	37.2	37.2
EAFE Active Equity Pool	30.8	30.2
EAFE Structured Equity Pool	41.8	40.6
Emerging Markets Equity Pool	22.1	24.5
Foreign Private Equity Pool (02)	87.5	87.5
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	87.2	87.1
Global Private Equity Pool (07)	85.2	85.2
Global Private Equity Pool (08)	88.2	-
Growing Equity Income Pool	53.4	54.1
Portable Alpha United States Equity Pool	80.0	84.2
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	88.8	88.8
Private Equity Pool (04)	89.0	89.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.6	88.5
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	33.9	38.7
Private Real Estate Pool	35.3	36.6
Tactical Asset Allocation Pool	82.1	83.7
Timberland Pool	87.6	87.6
U.S. Small/Mid Cap Equity Pool	23.0	23.9
U.S. Structured Equity Pool	42.5	37.6
Universe Fixed Income Pool	45.6	41.8

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, 2008, securities held by the Fund have an average effective market yield of 4.81% per annum (2007: 4.36% 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.

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, 2008, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

Note 3 (continued)

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 is managed with the objective of providing above average returns compared to the total return of the DEX 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, 2008, securities held by the Pool have an average effective market yield of 5.0% per annum (2007: 4.5% the following term structure based on principal amount: under 1 year: 4% (2007: 3%); 1 to 5 years: per annum) and 32% (2007: 33%); 5 to 10 years: 34% (2007: 34%); 10 to 20 years: 12% (2007: 11%); and over 20 years: 18% (2007: 19%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.5%), specialty mortgages (1.0%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2008, securities held by the Pool have an average effective market yield of 4.91% per annum (2007: 5.09% per annum) and the following term structure based on principal amount: under 1 year: 3% (2007: 6%); 1 to 5 years: 12% (2007: 15%); 5 to 10 years: 61% (2007: 54%); 10 to 20 years: 5% (2007: 5%); and over 20 years: 19% (2007: 20%).

g) As at March 31, 2008, investment in loans, excluding accrued interest, includes the Ridley Grain loan amounting to $138 million (2007: $96 million) and the Vencap loan amounting to $2.5 million (2007: $2 million).

- 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 $138 million and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2008 amounted to $43.5 million (2007: $90 million). The increase in the carrying value of the Ridley Grain loan resulted from a reduction in the provision for decline in estimated realizable value. 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 $53 million, 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.

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, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. 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 primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

Note 3 (continued)

l) The Canadian Structured Equity Pool 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.

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.

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) 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(l)).

s) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded U.S. equities. The portfolios are actively managed by external managers 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)).

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.

Note 3 (continued)

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 judgment 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.

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, 2008:

				($ thousands)			
	Maturity			2008		2007	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	94%	6%	-	$ 3,492,690	$ 10,036	$ 3,510,585	$ (3,095)
Interest rate swap contracts	6%	16%	78%	2,511,442	(23,531)	2,752,700	(5,973)
Forward foreign exchange contracts	100%	-	-	2,778,638	(49,632)	2,262,507	(2,574)
Cross-currency interest rate swaps	15%	54%	31%	937,269	5,875	1,035,104	30,058
Credit default swap contracts	2%	20%	78%	4,818,994	(30,961)	6,679,344	(22,293)
Bond index swap contracts	100%	-	-	462,483	23,899	1,560,938	2,479
Equity index futures contracts	100%	-	-	722,981	24,193	1,205,889	29,305
Swap option contracts	44%	-	56%	2,375,478	901	4,996,569	317
				$ 18,099,975	$ (39,220)	$ 24,003,636	$ 28,224

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 favorable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

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

NOTE 5 INVESTMENT RISK MANAGEMENT

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

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	51.0%
Fixed income securities	24.0%
Inflation sensitive	18.0%
Cash and Absolute Return Strategies	7.0%

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).

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 the Fund was created on May 19, 1976:

	($ thousands)	
	Cumulative since 1976	
	2008	2007
Accumulated net income	$ 30,793,195	$ 29,969,598
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049,324	12,049,324
Access to the Future (a)	1,000,000	1,000,000
Voted payments (b)	2,918,000	2,000,000
	15,967,324	15,049,324
Transfers (from) the Fund		
Section 8(2) transfers (c)		
Income	(28,424,825)	(27,601,228)
Amount Retained for Inflation-proofing	1,562,006	1,096,139
	(26,862,819)	(26,505,089)
Capital Expenditures (1976-1995) (d)	(3,485,888)	(3,485,888)
	(30,348,707)	(29,990,977)
Net Assets at cost	$ 16,411,812	$ 15,027,945
Net Assets at fair value	$ 17,044,628	$ 16,581,378

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.

b) During the year, the Fund received $918 million from the GRF.

c) During the year, the Fund earned net income of $823,597 of which $465,867 was retained in the Fund for inflation proofing and $357,730 was transferred to the GRF. In accordance with section 8(2) of the Act, the net income of the Fund, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. 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.

NOTE 7 NET INCOME

	($ thousands)	
	2008	2007
Canadian equities	$ 397,872	$ 386,133
Deposit and fixed-income securities	303,025	322,218
Real estate	220,797	143,709
Absolute return strategies	98,970	13,960
Private equities	43,779	39,411
Non-North American equities	29,779	542,019
Private income	22,315	13,041
Timberland	7,809	2,171
United States equities	(300,749)	185,344
Net income	$ 823,597	$ 1,648,006

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, 2008 includes writedowns totaling $224,865 (2007: $37,804) and losses of $15,417 from discontinued hedge accounting.

NOTE 8 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by the investment operations of Alberta Finance and Enterprise are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	($ thousands)	
	2008	2007
Total Investment expenses	$ 64,377	$ 55,063
Percent of net assets at fair value	0.38%	0.33%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (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	-0.7%	11.1%
Benchmark return (1)(2)	-0.3%	10.2%
Value added (lost) from active management	-0.4%	0.9%

1) The overall benchmark return for the one year and five years ended March 31, 2008 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 1.8%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.3%.

NOTE 10 COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to 2008 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 58,846	$ 58,846	$ 5,168	$ 5,168
Fixed-income securities (a)				
Corporate, public and private	3,405,352	3,305,821	3,252,887	3,236,952
Government of Canada, direct and guaranteed	990,979	1,016,456	1,054,371	1,053,089
Provincial, direct and guaranteed:				
Alberta	1,350	1,413	1,540	1,606
Other provinces	580,016	611,717	616,163	665,153
Loans	140,592	140,592	98,148	98,148
Municipal	232	262	1,675	1,985
	5,118,521	5,076,261	5,024,784	5,056,933
Receivable from sale of investments and accrued investment income	86,587	86,587	49,030	49,030
Accounts payable and accrued liabilities	(47,358)	(47,358)	(24,396)	(24,396)
	39,229	39,229	24,634	24,634
	$ 5,216,596	$ 5,174,336	$ 5,054,586	$ 5,086,735

a) Fixed income securities held as at March 31, 2008 have an average effective market yield of 5.2% per annum (2007: 4.7% per annum) and the following term structure based on principal amount:

	2008	2007
	%	%
under 1 year	4	4
1 to 5 years	28	30
5 to 10 years	39	37
10 to 20 years	11	10
over 20 years	18	19
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 2,410	$ 2,410	$ 1,852	$ 1,852
Real estate (a)				
Office	450,418	777,829	486,947	803,853
Retail	369,322	545,487	350,388	528,484
Industrial	205,181	258,894	181,439	209,357
Residential	56,575	98,615	53,205	73,231
	1,081,496	1,680,825	1,071,979	1,614,925
Foreign Private Real Estate Pool	84,719	78,604	87,122	87,379
Participation units	63,046	63,046	58,187	58,187
Accrued income and accounts receivable	823	823	1,029	1,029
	$ 1,232,494	$ 1,825,708	$ 1,220,169	$ 1,763,372

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

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 642,700	$ 902,584	$ 662,387	$ 944,336
Alberta	294,480	598,913	265,486	491,386
Quebec	124,120	143,209	124,001	148,299
British Columbia	20,196	36,119	20,105	30,904
	$ 1,081,496	$ 1,680,825	$ 1,071,979	$ 1,614,925

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 60,912	$ 60,912	$ 17,320	$ 17,320
Public equities (a) (b)				
Consumer discretionary	160,993	131,847	154,332	159,563
Consumer staples	72,462	61,132	69,786	68,535
Energy	666,736	703,773	593,053	652,493
Financials	783,109	724,348	738,115	847,511
Health care	5,047	3,794	17,641	17,441
Industrials	147,389	139,942	108,261	132,708
Information technology	96,914	124,808	95,801	106,996
Materials	414,657	443,412	332,712	394,476
Telecommunication services	143,120	145,147	126,846	154,296
Utilities	24,315	22,274	19,886	22,310
	2,514,742	2,500,477	2,256,433	2,556,329
Pooled Funds	110,001	108,494	-	-
Receivable from sale of investments and accrued investment income	15,641	15,641	39,109	39,109
Accounts payable and accrued liabilities	(17,725)	(17,725)	(29,002)	(29,002)
	(2,084)	(2,084)	10,107	10,107
	$ 2,683,571	$ 2,667,799	$ 2,283,860	$ 2,583,756

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 totaling $920,115 (2007: $1,174,290).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 76,734	$ 76,734	$ 18,938	$ 18,938
Public equities (a)				
Consumer discretionary	237,433	241,857	272,485	301,684
Consumer staples	246,490	261,685	230,288	251,664
Energy	293,734	327,933	233,596	267,079
Financials	437,485	441,079	542,745	595,513
Health Care	289,750	303,058	304,544	333,232
Industrials	316,664	329,971	292,218	324,451
Information technology	391,252	406,321	374,415	413,471
Materials	100,814	109,706	84,649	95,015
Telecommunication services	77,739	82,209	80,315	90,218
Utilities	95,456	98,896	92,468	103,500
	2,486,817	2,602,715	2,507,723	2,775,827
Pooled Funds	4,702	4,651	-	-
Receivable from sale of investments and accrued investment income	12,328	12,328	16,212	16,212
Accounts payable and accrued liabilities	(123,559)	(123,559)	(26,323)	(26,323)
	(111,231)	(111,231)	(10,111)	(10,111)
	$ 2,457,022	$ 2,572,869	$ 2,516,550	$ 2,784,654

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 totaling $1,915,237 (2007: $2,035,956).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIE Schedule E

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 47,632	$ 47,632	$ 28,538	$ 28,538
Public equities (a) (b)				
Consumer discretionary	293,876	274,662	282,965	311,840
Consumer staples	218,387	219,917	155,576	170,811
Energy	222,758	215,902	157,524	169,686
Financials	563,096	521,382	639,577	711,663
Health care	206,433	182,172	150,707	154,061
Industrials	359,082	361,948	316,706	368,473
Information technology	165,562	153,203	166,874	170,244
Materials	234,229	239,671	163,656	187,499
Telecommunication services	197,917	197,455	143,790	153,259
Utilities	138,638	139,224	112,028	128,688
	2,599,978	2,505,536	2,289,403	2,526,224
Pooled Funds	52,669	57,652	50,759	69,637
	2,652,647	2,563,188	2,340,162	2,595,861
Receivable from sale of investments and accrued investment income	38,661	38,661	31,604	31,604
Accounts payable and accrued liabilities	(47,831)	(47,300)	(34,225)	(34,225)
	(9,170)	(8,639)	(2,621)	(2,621)
	$ 2,691,109	$ 2,602,181	$ 2,366,079	$ 2,621,778

(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 totaling $545,211 (2007: $490,117).

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

Public equities by geographic location are as follows:

	($ thousands)			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 598,674	$ 543,036	$ 491,195	$ 530,612
Japan	524,974	479,503	491,885	498,640
France	286,227	282,214	259,395	284,571
Germany	245,809	244,134	178,941	201,595
Switzerland	161,213	168,023	117,827	139,801
Netherlands	107,218	103,106	99,313	122,399
Spain	107,513	114,562	93,246	104,131
Australia	104,748	105,531	88,480	97,113
Italy	91,468	89,784	71,763	82,369
Hong Kong	64,561	62,465	40,148	44,777
Other	360,242	370,830	407,969	489,853
	$ 2,652,647	$ 2,563,188	$ 2,340,162	$ 2,595,861

SCHEDULE OF INVESTMENT RETURNS

Schedule F

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	2008	2007	2006	2005	2004	Return
Short-term fixed income	3.7	3.9	2.9	2.3	2.9	3.1
DEX 91-day T-Bill Index	*4.6*	*4.2*	*2.8*	*2.2*	*3.0*	*3.4*
Value added (lost) from active management	(0.9)	(0.3)	0.1	0.1	(0.1)	(0.3)
Absolute return strategies	1.5	11.4	5.2	5.5	10.7	6.8
HFRX Global Hedged Index	*(1.5)*	*5.8*	*10.1*	*8.1*	*6.7*	*5.8*
Value added (lost) from active management	3.0	5.6	(4.9)	(2.6)	4.0	1.0
Long-term fixed income	4.5	6.3	6.5	5.8	11.3	6.8
DEX Universe Bond Index	*5.8*	*5.5*	*4.9*	*5.0*	*10.8*	*6.4*
Value added (lost) from active management	(1.3)	0.8	1.6	0.8	0.5	0.4
Real estate	16.4	24.3	20.7	17.0	7.5	17.1
IPD Large Institutional All Property Index	*14.5*	*18.3*	*19.4*	*7.1*	*5.5*	*12.8*
Value added (lost) from active management	1.9	6.0	1.3	9.9	2.0	4.3
Private income	12.8	20.3	21.3	5.3	n/a	n/a
CPI plus 6%	*7.8*	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*
Value added (lost) from active management	5.0	12.3	13.1	(2.8)	n/a	n/a
Timberland Investments	6.5	54.0	(4.9)*	n/a	n/a	n/a
CPI plus 4%	*5.8*	*6.0*	*4.2 **	*n/a*	*n/a*	*n/a*
Value added (lost) from active management	0.7	48.0	(9.1)	n/a	n/a	n/a
Canadian equities	2.4	11.8	28.8	15.4	36.6	18.4
S&P/TSX Composite Index	*4.0*	*11.4*	*28.4*	*13.9*	*37.7*	*18.5*
Value added (lost) from active management	(1.6)	0.4	0.4	1.5	(1.1)	(0.1)
United States equities	(17.7)	10.5	8.2	(1.6)	22.0	3.4
S&P 1500 Index	*(15.7)*	*9.9*	*9.1*	*(1.0)*	*20.5*	*3.8*
Value added (lost) from active management	(2.0)	0.6	(0.9)	(0.6)	1.5	(0.4)
Non-North American equities	(12.2)	17.6	24.2	7.6	40.9	14.2
MSCI EAFE Index	*(13.2)*	*18.7*	*20.0*	*6.2*	*40.5*	*13.0*
Value added (lost) from active management	1.0	(1.1)	4.2	1.4	0.4	1.2
Private equities	8.1	19.6	18.4	5.2	4.6	11.0
Consumer Price Index (CPI) plus 8%	*9.8*	*10.0*	*10.2*	*10.1*	*8.7*	*9.8*
Value added (lost) from active management	(1.7)	9.6	8.2	(4.9)	(4.1)	1.2
Overall	(0.7)	12.4	15.2	7.7	22.5	11.1
Policy Benchmark	*(0.3)*	*10.8*	*13.9*	*6.4*	*21.6*	*10.2*
Value added (lost) from active management	(0.4)	1.6	1.3	1.3	0.9	0.9

* Actual and benchmark returns are for nine months.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

Year Ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Scholarship Fund as at March 31, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

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

Statement of Financial Position

March 31, 2008

	($ thousands)	
	2008	**2007**
Assets		
Portfolio investments (Note 3)	$ 816,002	$ 575,292
Transfers receivable from Alberta Government departments	981	332
Receivable from sale of investments	1	610
	$ 816,984	**$ 576,234**
Liabilities		
Administration expense payable	$ 45	$ 19
Net Assets (Note 6)	816,939	576,215
	$ 816,984	**$ 576,234**

Statement of Operations and Net Assests

For the Year Ended March 31, 2008

	($ thousands)		
	2008		**2007**
	Budget	**Actual**	**Actual**
Investment income		$ 40,330	$ 61,007
Investment expenses (Note 8)		(2,165)	(1,217)
Net investment income (Note 7)	41,656	38,165	59,790
Transfers from the General Revenue Fund (Note 6b)	-	227,000	20,000
Transfers from Alberta Government departments	200	981	332
Other contributions	40	518	165
Scholarships	(26,512)	(25,940)	(24,979)
Change in Net Assets	**$ 15,384**	240,724	55,308
Net Assets at beginning of year		576,215	520,907
Net Assets at end of year		**$ 816,939**	**$ 576,215**

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

Statement of Cash Flows

For the Year Ended March 31, 2008

	($ thousands)	
	2008	**2007**
Operating transactions		
Net investment income	$ 38,165	$ 59,790
Non-cash items included in net investment income	(3,686)	(4,645)
	34,479	55,145
(Increase) decrease in receivables	(40)	1,358
Increase (decrease) in payables	26	(1,990)
Cash provided by operating transactions	34,465	54,513
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	83,467	43,450
Purchase of investments	(320,317)	(95,619)
Cash applied to investing transactions	(236,850)	(52,169)
Transfers		
Transfers from the General Revenue Fund	227,000	20,000
Transfers from Alberta Government departments	981	332
Other contributions	518	165
Transfers to Advanced Education for scholarships	(25,940)	(24,979)
Cash provided by (applied to) transfers	202,559	(4,482)
Increase (decrease) in cash	174	(2,138)
Cash at beginning of year	10,352	12,490
Cash at end of year	$ 10,526	$ 10,352
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 10,526	$ 10,352

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

Notes to the Financial Statements

March 31, 2008
(All dollar amounts in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act*, Chapter 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 AND EXPENSES

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when 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, which may vary from actual income and expenses.

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

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts 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.

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. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in the income immediately.

Note 2 (continued)

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 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.

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 estimated 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 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.

Note 2 (continued)

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.

NOTE 3 PORTFOLIO INVESTMENTS

	($ thousands)					
	2008			2007		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 10,526	$ 10,526	1.3	$ 10,352	$ 10,352	1.7
Currency Alpha Pool (b)	979	1,086	0.1	772	870	0.1
Tactical Asset Allocation Pool (c)	1,338	1,206	0.1	2,135	2,013	0.3
	12,843	**12,818**	**1.5**	**13,259**	**13,235**	**2.1**
Absolute Return Strategies (d)	**25,848**	**24,380**	**3.0**	**14,247**	**15,364**	**2.5**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	204,603	201,746	24.9	150,388	149,743	24.0
Private Mortgage Pool (f)	27,924	28,750	3.5	15,108	15,574	2.5
	232,527	**230,496**	**28.4**	**165,496**	**165,317**	**26.5**
Inflation Sensitive						
Real Estate (Schedule B)						
Private Real Estate Pool (g)	66,858	87,417	10.8	46,170	63,092	10.1
Foreign Private Real Estate Pool (h)	1,837	1,704	0.2	1,890	1,896	0.3
	68,695	**89,121**	**11.0**	**48,060**	**64,988**	**10.4**
Private Income (i)	**3,522**	**3,912**	**0.5**	**2,963**	**3,254**	**0.5**
Timberland (j)	**608**	**811**	**0.1**	**593**	**828**	**0.1**
Equities						
Canadian Equities (Schedule C)						
Canadian Structured Equity Pool (k)	45,873	41,437	5.1	59,189	59,975	9.6
Canadian Pooled Equity Fund (l)	52,991	51,305	6.3	34,465	41,045	6.6
Canadian Equity Enhanced Index Pool (m)	26,614	26,198	3.2	18,523	20,488	3.3
Canadian Large Cap Pool (n)	20,930	18,279	2.3	14,389	14,544	2.4
Growing Equity Income Pool (o)	11,984	10,935	1.3	6,635	7,660	1.2
Canadian Multi-Cap Pool (p)	58,198	55,791	6.9	15,960	16,377	2.6
Tactical Asset Allocation Pool Canadian futures contracts (c)	-	-	-	(8,326)	(8,326)	(1.3)
	216,590	**203,945**	**25.1**	**140,835**	**151,763**	**24.4**
United States Equities (Schedule D)						
US Structured Equity Pool (q)	71,725	74,601	9.2	73,665	82,140	13.2
US Small/Mid Cap Equity Pool (r)	15,577	14,890	1.8	10,439	12,011	2.0
Portable Alpha United States Equity Pool (s)	29,871	28,261	3.5	-	-	-
Growing Equity Income Pool (o)	3,576	2,947	0.4	2,621	2,525	0.4
Tactical Asset Allocation Pool US futures contracts (c)	-	-	-	8,233	8,233	1.3
	120,749	**120,699**	**14.9**	**94,958**	**104,909**	**16.9**
Non-North American Equities (Schedule E)						
EAFE Active Equity Pool (t)	98,475	90,076	11.1	66,673	73,383	11.8
EAFE Structured Equity Pool (u)	22,240	21,722	2.7	18,370	18,202	2.9
Emerging Markets Equity Pool (v)	6,104	5,372	0.7	5,447	6,793	1.1
	126,819	**117,170**	**14.5**	**90,490**	**98,378**	**15.8**
Private Equities (i)	**7,801**	**8,204**	**1.0**	**4,391**	**4,699**	**0.8**
Total Investments (w)	**$ 816,002**	**$ 811,556**	**100.0**	**$ 575,292**	**$ 622,735**	**100.0**

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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, 2008, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2008	**2007**
Absolute Return Strategy Pool	2.3	1.5
Canadian Equity Enhanced Index Pool	6.3	1.5
Canadian Large Cap Equity Pool	1.0	0.7
Canadian Multi-Cap Pool	3.8	2.4
Canadian Pooled Equity Fund	4.0	3.1
Canadian Structured Equity Pool	3.3	2.8
Currency Alpha Pool	1.4	1.4
EAFE Active Equity Pool	1.4	1.1
EAFE Structured Equity Pool	1.8	1.6
Emerging Markets Pool	1.1	1.0
Foreign Private Equity Pool (02)	2.0	2.0
Foreign Private Real Estate Pool	1.9	1.9
Global Private Equity Pool (07)	0.9	0.9
Global Private Equity Pool (08)	4.4	-
Growing Equity Income Pool	4.0	2.8
Portable Alpha United States Equity Pool	4.1	-
Private Equity Pool	2.2	2.2
Private Equity Pool (02)	1.3	1.3
Private Income Pool	1.7	1.7
Private Income Pool 2	1.0	1.0
Private Mortgage Pool	1.6	1.0
Private Real Estate Pool	1.8	1.4
Tactical Asset Allocation Pool	4.1	3.2
Timberland Pool	0.9	0.9
US Small/Mid Cap Equity Pool	1.2	0.9
US Structured Equity Pool	1.9	1.9
Universe Fixed Income Pool	2.1	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, 2008, securities held by the Fund have an average effective market yield of 4.81% per annum (2007: 4.36% 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.

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, 2008, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in 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.

Note 3 (continued)

e) The Universe Fixed Income Pool is managed with the objective of providing above average returns compared to the total return of the DEX 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, 2008, securities held by the Pool have an average effective market yield of 5.0% per annum (2007: 4.5% per annum) and the following term structure based on principal amount: under 1 year: 4% (2007: 3%); 1 to 5 years: 32% (2007: 33%); 5 to 10 years: 34% (2007: 34%); 10 to 20 years: 12% (2007: 11%); and over 20 years: 18% (2007: 19%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.5%), specialty mortgages (1.0%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2008, securities held by the Pool have an average effective market yield of 4.91% per annum (2007: 5.09% per annum) and the following term structure based on principal amount: under 1 year: 3% (2007: 6%); 1 to 5 years: 12% (2007: 15%); 5 to 10 years: 61% (2007: 54%); 10 to 20 years: 5% (2007: 5%); and over 20 years: 19% (2007: 20%).

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 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, PEP02, the Foreign Private Equity Pool 2002, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. 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 and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

k) The Canadian Structured Equity Pool 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.

Note 3 (continued)

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.

n) 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.

o) 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.

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) 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 multiple portfolios of publicly traded U.S. equities. The portfolios are actively managed by external managers 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.

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)).

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 is 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 2008-2009 fiscal year:

Equities	56%
Fixed-income securities	25%
Inflation sensitive	15%
Cash and Absolute Return Strategies	4%

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 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.

Note 5 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2008.

	Maturity			2008		2007	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	94%	6%	-	$ 194,042	$ 733	$ 151,405	$ 55
Interest rate swap contracts	6%	16%	78%	124,020	(1,305)	104,701	(297)
Forward foreign exchange contracts	100%	-	-	89,896	(1,118)	59,847	(83)
Cross-currency interest rate swaps	15%	54%	31%	46,160	711	48,054	1,486
Credit default swap contracts	2%	20%	78%	222,957	(1,464)	230,605	(748)
Bond index swap contracts	100%	-	-	21,574	1,261	53,613	143
Equity index futures contracts	100%	-	-	39,079	1,294	51,317	1,178
Swap option contracts	44%	-	56%	108,738	41	170,145	11
				$ 846,466	**$ 153**	**$ 869,687**	**$ 1,745**

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

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

NOTE 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	
	2008	2007
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 100,000	$ 100,000
Transfers from the General Revenue Fund (b) (c)	497,000	270,000
Other contributions	13,623	12,124
Accumulated investment income	586,672	548,507
Accumulated scholarship payments (a)	(380,356)	(354,416)
Net Assets, at cost	**$ 816,939**	**$ 576,215**
Net Assets, at fair value	**$ 812,493**	**$ 623,658**

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) During the year, the Fund has received $227 million from 2006-07 Government surpluses.

c) In accordance with section 2.1 of the Act, the Fund has received $270 million on account of the *Access to the Future Act*. Section 7 of the *Access to the Future Act* states that the Alberta Heritage Scholarship Fund shall be increased by $1 billion, in amounts considered appropriate by the Minister of Finance and Enterprise.

NOTE 7 NET INVESTMENT INCOME

	($thousands)	
	2008	**2007**
Canadian equities	$ 26,538	$ 19,592
Deposits and fixed-income securities	10,962	8,810
Real estate	9,241	5,093
Absolute return strategies	2,657	199
Non-North American equities	1,689	18,049
Private equities	864	1,913
Private income	379	272
Timberland	81	22
United States equities	(14,246)	5,840
Net investment income	**$ 38,165**	**$ 59,790**

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, 2008 includes writedowns of $11,101 (2007: $1,614).

NOTE 8 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by the investment operations of Alberta Finance and Enterprise are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	($ thousands)	
	2008	**2007**
Total Investment expenses	$ 2,165	$ 1,217
Percent of net assets at fair value	0.27%	0.20%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (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	-1.3%	11.6%
Benchmark return (1)	-0.3%	11.0%
Value added (lost) from active management	-1.0%	0.6%

1) The overall benchmark return for year ended March 31, 2008 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to 2008 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 2,694	$ 2,694	$ 176	$ 176
Fixed-income securities (a)				
Corporate, public and private	155,881	151,394	107,235	105,964
Government of Canada, direct and guaranteed	45,487	46,529	36,271	35,860
Provincial, direct and guaranteed:				
Alberta	62	65	53	55
Other provinces	26,596	28,006	20,885	22,376
Municipal	11	12	58	68
	228,037	226,006	164,502	164,323
Receivable from sale of investments and accrued investment income	3,964	3,964	1,649	1,649
Accounts payable and accrued liabilities	(2,168)	(2,168)	(831)	(831)
	1,796	1,796	818	818
	$ 232,527	$ 230,496	$ 165,496	$ 165,317

a) Fixed income securities held as at March 31, 2008 have an average effective market yield of 4.98% per annum (2007: 4.56% per annum) and the following term structure based on principal amount:

	2008	**2007**
	%	%
under 1 year	4	4
1 to 5 years	29	31
5 to 10 years	38	36
10 to 20 years	11	10
over 20 years	18	19
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 121	$ 121	$ 70	$ 70
Real estate (a)				
Office	26,465	38,919	19,922	30,265
Retail	21,698	27,294	14,340	19,895
Industrial	12,055	12,954	7,425	7,881
Residential	3,324	4,934	2,178	2,757
	63,542	84,101	43,865	60,798
Foreign Private Equity Pool	1,837	1,704	1,896	1,891
Participation units	3,154	3,154	2,190	2,190
Accrued income and accounts receivable	41	41	39	39
	$ 68,695	$ 89,121	$ 48,060	$ 64,988

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

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 37,762	$ 45,161	$ 27,102	$ 35,554
Alberta	17,301	29,967	10,865	18,498
Quebec	7,292	7,166	5,075	5,583
British Columbia	1,187	1,807	823	1,163
	$ 63,542	$ 84,101	$ 43,865	$ 60,798

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

	($ thousands)			
	Fund's share			
	2008		**2007**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 4,648	$ 4,648	$ 968	$ 968
Public equities (a) (b)				
Consumer discretionary	12,967	9,993	9,422	9,264
Consumer staples	5,810	4,632	4,258	3,997
Energy	53,826	53,834	36,791	38,415
Financials	63,189	55,285	45,260	49,855
Health Care	414	292	1,136	1,031
Industrials	11,907	10,673	6,711	7,754
Information technology	7,751	9,531	5,899	6,305
Materials	33,543	33,954	20,667	23,237
Telecommunication services	11,489	11,047	7,871	9,055
Utilities	2,004	1,718	1,278	1,308
	202,900	190,959	139,293	150,221
Pooled Funds	9,185	8,481	-	-
Receivable from sale of investments and accrued investment income	1,200	1,200	2,202	2,202
Accounts payable and accrued liabilities	(1,343)	(1,343)	(1,628)	(1,628)
	(143)	(143)	574	574
	$ 216,590	$ 203,945	$ 140,835	$ 151,763

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 $71,651 (2007: $63,163).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 3,453	$ 3,453	$ 217	$ 217
Public equities (a) (b)				
Consumer discretionary	11,957	11,537	10,269	11,380
Consumer staples	11,888	12,076	8,793	9,516
Energy	14,300	15,289	8,753	10,080
Financials	21,665	20,828	20,770	22,681
Health Care	14,058	14,091	11,478	12,508
Industrials	15,570	15,504	11,139	12,327
Information technology	19,127	19,000	14,112	15,549
Materials	5,048	5,256	3,177	3,585
Telecommunication services	3,753	3,797	2,994	3,373
Utilities	4,698	4,645	3,470	3,907
	122,064	122,023	94,955	104,906
Pooled Funds	242	233	-	-
	122,306	122,256	94,955	104,906
Receivable from sale of investments and accrued investment income	559	559	494	494
Accounts payable and accrued liabilities	(5,569)	(5,569)	(708)	(708)
	(5,010)	(5,010)	(214)	(214)
	$ 120,749	$ 120,699	$ 94,958	$ 104,909

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 $88,715 (2007: $70,919).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule E

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 2,153	$ 2,153	$ 1,062	$ 1,062
Public equities (a) (b)				
Consumer discretionary	13,797	12,309	10,797	11,671
Consumer staples	10,216	9,844	5,912	6,385
Energy	10,485	9,697	6,013	6,360
Financials	26,380	23,387	24,411	26,673
Health Care	9,711	8,165	5,726	5,750
Industrials	16,874	16,232	12,075	13,755
Information technology	7,828	6,891	6,376	6,359
Materials	10,954	10,744	6,260	7,049
Telecommunication services	9,355	8,883	5,507	5,744
Utilities	6,472	6,229	4,268	4,829
	122,072	112,381	87,345	94,575
Pooled Funds	2,938	2,973	2,176	2,834
	125,010	115,354	89,521	97,409
Receivable from sale of investments and accrued investment income	1,756	1,756	1,181	1,181
Accounts payable and accrued liabilities	(2,100)	(2,093)	(1,274)	(1,274)
	(344)	(337)	(93)	(93)
	$ 126,819	$ 117,170	$ 90,490	$ 98,378

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 $23,628 (2007: $18,761).

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

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 28,188	$ 24,433	$ 18,710	$ 19,896
Japan	24,550	21,441	18,669	18,613
France	13,398	12,628	9,859	10,608
Germany	11,512	10,927	6,797	7,519
Switzerland	7,515	7,511	4,468	5,222
Netherlands	5,054	4,625	3,776	4,558
Spain	5,023	5,126	3,542	3,884
Australia	4,823	4,700	3,350	3,635
Italy	4,270	4,014	2,722	3,076
Hong Kong	3,079	2,829	1,536	1,682
Other	17,598	17,120	16,092	18,716
	$ 125,010	$ 115,354	$ 89,521	$ 97,409

SCHEDULE OF INVESTMENT RETURNS

Schedule F

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	**2008**	**2007**	**2006**	**2005**	**2004**	**Return**
Short-term fixed Income	**4.5**	**4.7**	**2.9**	**2.7**	**3.0**	**3.5**
DEX 91-day T-Bill Index	*4.6*	*4.2*	*2.8*	*2.2*	*3.0*	*3.4*
Value added (lost) from active management	(0.1)	0.5	0.1	0.5	0.0	0.1
Absolute return strategies	**1.5**	**11.4**	**5.2**	**5.5**	**10.7**	**6.8**
HFRX Global Hedged Index	*(1.5)*	*5.8*	*10.1*	*8.1*	*6.7*	*5.8*
Value added (lost) from active management	3.0	5.6	(4.9)	(2.6)	4.0	1.0
Long-term fixed income	**3.2**	**5.9**	**5.7**	**5.6**	**11.6**	**6.4**
DEX Universe Bond Index	*5.8*	*5.5*	*4.9*	*5.0*	*10.8*	*6.4*
Value added (lost) from active management	(2.6)	0.4	0.8	0.6	0.8	0.0
Real estate	**16.6**	**24.6**	**20.9**	**16.7**	**7.5**	**17.1**
IPD Large Institutional All Property Index	*14.5*	*18.3*	*19.4*	*7.1*	*5.5*	*12.8*
Value added (lost) from active management	2.1	6.3	1.5	9.6	2.0	4.3
Private income	**14.2**	**24.7**	**21.3**	**5.3**	**n/a**	**n/a**
CPI plus 6%	*7.8*	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*
Value added (lost) from active management	6.4	16.7	13.1	(2.8)	n/a	n/a
Timberland Investments	**6.5**	**54.0**	**(4.9)** *	**n/a**	**n/a**	**n/a**
CPI plus 4%	*5.8*	*6.0*	*4.2* *	*n/a*	*n/a*	*n/a*
Value added (lost) from active management	0.7	48.0	(9.1)	n/a	n/a	n/a
Canadian equities	**2.4**	**12.4**	**28.8**	**15.4**	**36.2**	**18.4**
S&P/TSX Composite Index	*4.0*	*11.4*	*28.4*	*13.9*	*37.7*	*18.5*
Value added (lost) from active management	(1.6)	1.0	0.4	1.5	(1.5)	(0.1)
United States equities	**(17.9)**	**10.0**	**8.7**	**(2.0)**	**22.2**	**3.3**
S&P 500 Index	*(15.7)*	*9.9*	*9.1*	*(1.0)*	*20.5*	*3.8*
Value added (lost) from active management	(2.2)	0.1	(0.4)	(1.0)	1.7	(0.5)
Non-North American equities	**(12.2)**	**17.5**	**24.2**	**7.5**	**40.9**	**14.2**
MSCI EAFE Index	*(13.2)*	*18.7*	*20.0*	*6.2*	*40.5*	*13.0*
Value added (lost) from active management	1.0	(1.2)	4.2	1.3	0.4	1.2
Private equities	**16.6**	**26.5**	**15.3**	**(1.1)**	**1.3**	**11.2**
Consumer Price Index (CPI) plus 8%	*9.8*	*10.0*	*10.2*	*10.1*	*8.7*	*9.8*
Value added (lost) from active management	6.8	16.5	5.1	(11.2)	(7.4)	1.4
Overall	**(1.3)**	**12.3**	**16.5**	**8.1**	**24.0**	**11.6**
Policy Benchmark	***(0.3)***	***11.2***	***15.4***	***6.7***	***23.3***	***11.0***
Value added (lost) from active management	(1.0)	1.1	1.1	1.4	0.7	0.6

*. Actual and benchmark returns are for nine months.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

Year Ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

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

Statement of Financial Position

March 31, 2008

	($ thousands)	
	2008	2007
Assets		
Portfolio investments (Note 3)	$ 830,719	$ 835,531
Receivable from sale of investments	2	600
	$ 830,721	$ 836,131
Liabilities		
Liabilities for investment purchases	$ -	$ 279
Administration expense payable	41	57
	41	336
Net Assets (Note 6)	830,680	835,795
	$ 830,721	$ 836,131

Statement of Operation and Net Assets

For the Year Ended March 31, 2008

	($ thousands)		
	2008		2007
	Budget	Actual	Actual
Investment income		$ 31,531	$ 82,594
Investment expense (Note 8)		(3,346)	(2,396)
Net investment income (Note 7)	$ 55,607	28,185	80,198
Transfer from the General Revenue Fund (Note 6a)	-	-	100,000
Transfers to the Alberta Heritage Foundation for Science and Engineering Research (Note 6b)	(27,600)	(33,300)	(21,700)
Change in net assets	$ 28,007	(5,115)	158,498
Net assets at beginning of year		835,795	677,297
Net assets at end of year		$ 830,680	$ 835,795

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

Statement of Cash Flows

For the Year Ended March 31, 2008

	($ thousands)	
	2008	2007
Operating transactions		
Net investment income	$ 28,185	$ 80,198
Non-cash items included in net investment income	(4,418)	(5,649)
	23,767	74,549
Decrease in receivables	598	2,650
(Decrease) increase in payables	(295)	335
Cash provided by operating transactions	24,070	77,534
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	113,858	83,309
Purchase of investments	(106,186)	(240,183)
Cash provided by (applied to) investing transactions	7,672	(156,874)
Transfers		
Transfers from the General Revenue Fund	-	100,000
Transfers to the Foundation	(33,300)	(21,700)
Cash (applied to) provided by transfers	(33,300)	78,300
Decrease in cash	(1,558)	(1,040)
Cash at beginning of year	5,238	6,278
Cash at end of year	$ 3,680	$ 5,238
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 3,680	$ 5,238

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

Notes to the Financial Statements

March 31, 2008
(All dollar amounts in thousands, unless otherwise stated)

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 AND EXPENSES

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when 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, which may vary from actual income and expenses.

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

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts 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.

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. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

Note 2 (continued)

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, 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 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.

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 estimated 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 value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

Note 2 (continued)

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.

NOTE 3 PORTFOLIO INVESTMENTS

	($ thousands)					
	2008			2007		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 3,680	$ 3,680	0.4	$ 5,238	$ 5,238	0.6
Currency Alpha Pool (b)	1,263	1,378	0.2	1,000	1,103	0.1
Tactical Asset Allocation Pool (c)	1,439	1,316	0.2	2,557	2,548	0.3
	6,382	6,374	0.8	8,795	8,889	1.0
Absolute Return Strategies (d)	50,425	48,903	5.8	42,814	45,879	5.1
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	184,775	183,431	21.9	218,877	221,147	24.8
Private Mortgage Pool (f)	28,724	29,453	3.5	26,331	26,948	3.0
	213,499	212,884	25.4	245,208	248,095	27.8
Inflation Sensitive						
Real Estate (Schedule B)						
Private Real Estate Pool (g)	67,129	93,963	11.2	66,127	88,937	10.0
Foreign Private Real Estate Pool (h)	3,635	3,373	0.4	3,741	3,752	0.4
	70,764	97,336	11.6	69,868	92,689	10.4
Private Income Pools (i)	11,092	12,140	1.5	8,486	9,190	1.0
Timberland (j)	2,614	3,486	0.4	2,551	3,560	0.4
Equities						
Canadian (Schedule C)						
Canadian Structured Equity Pool (k)	29,040	25,213	3.0	50,494	48,470	5.4
Canadian Pooled Equity Fund (l)	34,086	31,048	3.7	32,471	33,978	3.8
Canadian Equity Enhanced Index Pool (m)	14,585	15,025	1.8	14,547	16,274	1.8
Canadian Large Cap Pool (n)	14,099	11,592	1.4	12,994	12,007	1.3
Growing Equity Income Pool (o)	6,777	6,550	0.8	6,056	7,043	0.8
Canadian Multi-Cap Pool (p)	34,096	32,977	3.9	14,636	14,872	1.7
Tactical Asset Allocation Pool Canadian futures contracts (c)	-	-	-	(10,538)	(10,538)	(1.1)
	132,683	122,405	14.6	120,660	122,106	13.7
United States (Schedule D)						
US Structured Equity Pool (q)	93,618	95,938	11.5	96,977	106,098	11.9
US Small/Mid Cap Equity Pool (r)	19,555	18,755	2.2	18,433	20,334	2.3
Portable Alpha United States Equity Pool (s)	35,688	35,433	4.2	36,023	38,135	4.3
Growing Equity Income Pool (o)	2,019	1,765	0.2	2,391	2,319	0.3
Tactical Asset Allocation Pool US futures contracts (c)	-	-	-	10,420	10,420	1.1
	150,880	151,891	18.1	164,244	177,306	19.9
Non-North American (Schedule E)						
EAFE Active Equity Pool (t)	129,911	120,010	14.3	119,186	128,611	14.4
EAFE Structured Equity Pool (u)	34,559	33,439	4.0	34,442	33,568	3.8
Emerging Market Equity Pool (v)	5,971	5,569	0.7	7,539	9,606	1.1
	170,441	159,018	19.0	161,167	171,785	19.3
Private Equity Pools (i)	21,939	23,139	2.8	11,738	12,427	1.4
Total Investments (w)	$ 830,719	$ 837,576	100.0	$ 835,531	$ 891,926	100.0

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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, 2008, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2008	2007
Absolute Return Strategy Pool	4.6	4.5
Canadian Equity Enhanced Index Pool	3.6	1.2
Canadian Large Cap Equity Pool	0.6	0.6
Canadian Multi-Cap Pool	2.3	2.2
Canadian Pooled Equity Fund	2.4	2.6
Canadian Structured Equity Pool	2.0	2.2
Currency Alpha Pool	1.8	1.8
EAFE Active Equity Pool	1.9	2.0
EAFE Structured Equity Pool	2.8	2.9
Emerging Markets Equity Pool	1.2	1.4
Foreign Private Equity Pool (02)	3.5	3.5
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	5.1
Global Private Equity Pool (08)	2.3	-
Growing Equity Income Pool	2.4	2.6
Portable Alpha United States Equity Pool	5.1	5.4
Private Equity Pool (02)	2.5	2.5
Private Equity Pool (04)	4.6	4.6
Private Income Pool	3.6	3.6
Private Income Pool 2	3.8	3.8
Private Mortgage Pool	1.6	1.8
Private Real Estate Pool	1.9	1.9
Tactical Asset Allocation Pool	4.5	4.0
Timberland Pool	3.9	3.9
US Small/Mid Cap Equity Pool	1.4	1.6
US Structured Equity Pool	2.4	2.5
Universe Fixed Income Pool	1.9	2.1

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, 2008, securities held by the Fund have an average effective market yield of 4.81% per annum (2007: 4.36% 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.

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, 2008, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in 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.

Note 3 (continued)

e) The Universe Fixed Income Pool is managed with the objective of providing above average returns compared to the total return of the DEX 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, 2008, securities held by the Pool have an average effective market yield of 5.0% per annum (2007: 4.5% per annum) and the following term structure based on principal amount: under 1 year: 4% (2007: 3%); 1 to 5 years: 32% (2007: 33%); 5 to 10 years: 34% (2007: 34%); 10 to 20 years: 12% (2007: 11%); and over 20 years: 18% (2007: 19%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.5%), specialty mortgages (1.0%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2008, securities held by the Pool have an average effective market yield of 4.91% per annum (2007: 5.09% per annum) and the following term structure based on principal amount: under 1 year: 3% (2007: 6%); 1 to 5 years: 12% (2007: 15%); 5 to 10 years: 61% (2007: 54%); 10 to 20 years: 5% (2007: 5%); and over 20 years: 19% (2007: 20%).

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 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 Private Equity Pool 02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. 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 and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

k) The Canadian Structured Equity Pool 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.

Note 3 (continued)

n) 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.

o) 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.

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) 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 multiple portfolios of publicly traded U.S. equities. The portfolios are actively managed by external managers 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.

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)).

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 is 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 2008-2009 fiscal year:

Equities	56.5%
Fixed-income securities	21.5%
Inflation sensitive	15.0%
Cash and Absolute Return Strategies	7.0%

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 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.

Note 5 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2008:

	Maturity			2008		2007	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	94%	6%	-	$ 196,717	$ 502	$ 210,128	$ (366)
Interest rate swap contracts	6%	16%	78%	113,670	(1,263)	143,312	(345)
Forward foreign exchange contracts	100%	-	-	138,210	(2,444)	112,144	(159)
Cross-currency interest rate swaps	15%	54%	31%	49,244	40	61,214	1,729
Credit default swap contracts	2%	20%	78%	204,320	(1,380)	337,590	(1,113)
Bond index swap contracts	100%	-	-	20,651	1,286	78,686	148
Equity index futures contracts	100%	-	-	34,997	1,247	58,803	1,445
Swap option contracts	44%	-	56%	98,867	37	251,277	16
				$ 856,676	$ (1,975)	$ 1,253,154	$ 1,355

($ thousands)

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

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

NOTE 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:

($ thousands)

	Cumulative since 2000	
	2008	2007
Transfers from the General Revenue Fund (a)	$ 721,430	$ 721,430
Accumulated investment income	214,536	186,351
Accumulated transfers to the Foundation (b)	(105,286)	(71,986)
Net Assets, at cost	$ 830,680	$ 835,795
Net Assets, at fair value	$ 837,537	$ 892,190

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 $100 million was transferred from the GRF during the 2006-2007 fiscal year. Under the Access to the Future Act, the Fund shall be increased by $500 million in amounts considered appropriate by the Minister of Finance.

Note 6 (continued)

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.

	($ thousands)
	2008
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
Transfers to Foundation during the year	(33,300)
Accumulated unused spending limit at March 31, 2008	16,589
4.5% of average market value on March 31, 2006-08	36,681
Spending limit for the year ended March 31, 2009	$ 53,270

NOTE 7 NET INVESTMENT INCOME

	($ thousands)	
	2008	2007
Canadian equities	$ 15,887	$ 15,747
Deposit and fixed-income securities	11,128	13,057
Real estate	10,709	6,890
Absolute return strategies	5,246	647
Non-North American equities	1,298	30,625
Private income	930	527
Private equities	875	1,003
Timberland	348	97
United States equities	(18,236)	11,605
Net investment income	$ 28,185	$ 80,198

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, 2008 includes writedowns of $12,647 (2007: $1,661).

NOTE 8 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by the investment operations of Alberta Finance and Enterprise are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	($ thousands)	
	2008	2007
Total Investment expenses	$ 3,346	$ 2,396
Percent of net assets at fair value	0.40%	0.27%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (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	-2.5%	10.4%
Benchmark return (1)	-1.8%	9.8%
Value added (lost) from active management	-0.7%	0.6%

(1) The overall benchmark return for year ended March 31, 2008 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to 2008 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)			
	Funds' Share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 2,450	$ 2,450	$ 260	$ 260
Fixed income securities (a)				
Corporate, public and private	144,039	140,768	160,112	160,185
Government of Canada, direct and guaranteed	41,072	42,305	52,785	52,960
Provincial, direct and guaranteed:				
Alberta	56	59	77	81
Other provinces	24,227	25,646	30,664	33,283
Municipal	10	11	84	100
	209,404	208,789	243,722	246,609
Receivable from sale of investments and accrued investment income	3,617	3,617	2,453	2,453
Accounts payable and accrued liabilities	(1,972)	(1,972)	(1,227)	(1,227)
	1,645	1,645	1,226	1,226
	$ 213,499	$ 212,884	$ 245,208	$ 248,095

a) Fixed income securities held as at March 31, 2008 have an average effective market yield of 4.98% per annum (2007: 4.56% per annum) and the following term structure based on principal amount:

	2008	2007
	%	%
under 1 year	4	4
1 to 5 years	29	31
5 to 10 years	38	36
10 to 20 years	11	10
over 20 years	18	19
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 130	$ 130	$ 98	$ 98
Real estate (a)				
Office	26,474	41,833	28,566	42,656
Retail	21,706	29,337	20,555	28,044
Industrial	12,059	13,924	10,644	11,110
Residential	3,325	5,304	3,121	3,886
	63,564	90,398	62,886	85,696
Foreign Private Equity Pool	3,635	3,373	3,741	3,752
Participation units	3,391	3,391	3,088	3,088
Accrued income and accounts receivable	44	44	55	55
	$ 70,764	$ 97,336	$ 69,868	$ 92,689

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

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 37,774	$ 48,542	$ 38,859	$ 50,110
Alberta	17,308	32,211	15,574	26,076
Quebec	7,295	7,702	7,274	7,870
British Columbia	1,187	1,943	1,179	1,640
	$ 63,564	$ 90,398	$ 62,886	$ 85,696

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 2,812	$ 2,812	$ 817	$ 817
Public equities (a) (b)				
Consumer discretionary	8,120	6,046	8,273	7,542
Consumer staples	3,686	2,809	3,733	3,237
Energy	32,992	32,322	31,530	30,852
Financials	38,854	33,253	38,366	40,045
Health Care	271	179	1,007	825
Industrials	7,353	6,430	5,831	6,274
Information technology	4,765	5,726	5,066	5,054
Materials	20,580	20,376	17,695	18,642
Telecommunication services	7,057	6,654	6,727	7,283
Utilities	1,255	1,030	1,134	1,054
	124,933	114,825	119,362	120,808
Pooled Funds	5,033	4,863	-	-
Receivable from sale of investments and accrued investment income	723	723	1,849	1,849
Accounts payable and accrued liabilities	(818)	(818)	(1,368)	(1,368)
	(95)	(95)	481	481
	$ 132,683	$ 122,405	$ 120,660	$ 122,106

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 $42,886 (2007: $56,018).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 4,429	$ 4,429	$ 1,229	$ 1,229
Public equities (a) (b)				
Consumer discretionary	14,496	14,223	17,852	19,290
Consumer staples	15,120	15,414	15,003	15,962
Energy	17,924	19,314	15,165	16,961
Financials	26,794	25,949	35,208	37,668
Health care	17,871	17,963	20,008	21,327
Industrials	19,478	19,527	19,048	20,649
Information technology	24,060	23,997	24,554	26,432
Materials	6,181	6,496	5,560	6,096
Telecommunication services	4,772	4,846	5,246	5,751
Utilities	5,875	5,863	6,027	6,597
	152,571	153,592	163,671	176,733
Pooled Funds	303	293	-	-
	152,874	153,885	163,671	176,733
Receivable from sale of investments and accrued investment income	716	716	1,058	1,058
Accounts payable and accrued liabilities	(7,139)	(7,139)	(1,714)	(1,714)
	(6,423)	(6,423)	(656)	(656)
	$ 150,880	$ 151,891	$ 164,244	$ 177,306

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 $113,161 (2007: $129,062).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule E

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 2,859	$ 2,859	$ 1,827	$ 1,827
Public equities (a) (b)				
Consumer discretionary	18,711	16,862	19,338	20,493
Consumer staples	13,931	13,521	10,676	11,306
Energy	14,161	13,216	10,760	11,145
Financials	35,810	32,134	43,694	46,783
Health care	13,139	11,169	10,345	10,189
Industrials	22,860	22,163	21,664	24,190
Information technology	10,495	9,360	11,390	11,168
Materials	14,926	14,742	11,150	12,320
Telecommunication services	12,555	12,041	9,788	10,039
Utilities	8,851	8,573	7,666	8,459
	165,439	153,781	156,471	166,092
Emerging markets pooled funds	2,872	3,082	3,010	4,007
	168,311	156,863	159,481	170,099
Receivable from sale of investments and accrued investment income	2,294	2,294	2,078	2,078
Accounts payable and accrued liabilities	(3,023)	(2,998)	(2,219)	(2,219)
	(729)	(704)	(141)	(141)
	$ 170,441	$ 159,018	$ 161,167	$ 171,785

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 $36,230 (2007: $34,528).

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

	($ thousands)			
	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 38,031	$ 33,248	$ 33,521	$ 34,914
Japan	33,479	29,522	33,720	32,984
France	18,270	17,343	17,790	18,757
Germany	15,687	14,994	12,278	13,305
Switzerland	10,309	10,351	8,094	9,262
Netherlands	6,823	6,298	6,809	8,046
Spain	6,868	7,041	6,398	6,875
Australia	6,714	6,564	6,085	6,467
Italy	5,845	5,531	4,929	5,455
Hong Kong	4,063	3,798	2,733	2,932
Other	22,222	22,173	27,124	31,102
	$ 168,311	$ 156,863	$ 159,481	$ 170,099

SCHEDULE OF INVESTMENT RETURNS

Schedule F

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					Five Year Compound Annualized
Time-weighted Rates of Return	2008	2007	2006	2005	2004	Return
Short-term fixed Income	4.3	8.0	2.9	2.7	3.0	4.1
DEX 91-day T-Bill Index	*4.6*	*4.2*	*2.8*	*2.2*	*3.0*	*3.4*
Value added (lost) from active management	(0.3)	3.8	0.1	0.5	0.0	0.7
Absolute return strategies	1.5	11.4	5.2	5.5	10.7	n/a
HFRX Global Hedged Index	*(1.5)*	*5.8*	*10.1*	*8.1*	*6.7*	*n/a*
Value added (lost) from active management	3.0	5.6	(4.9)	(2.6)	4.0	n/a
Long-term fixed income	3.2	5.9	5.7	5.6	11.6	6.4
DEX Universe Bond Index	*5.8*	*5.5*	*4.9*	*5.0*	*10.8*	*6.4*
Value added (lost) from active management	(2.6)	0.4	0.8	0.6	0.8	0.0
Real estate	16.5	24.5	20.7	16.9	7.5	17.1
IPD Large Institutional All Property Index	*14.5*	*18.3*	*19.4*	*7.1*	*5.5*	*12.8*
Value added (lost) from active management	2.0	6.2	1.3	9.8	2.0	4.3
Private income	12.6	19.8	21.3	5.4	n/a	n/a
CPI plus 6%	*7.8*	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*
Value added (lost) from active management	4.8	11.8	13.1	(2.7)	n/a	n/a
Timberland Investments	6.5	54.0	(4.9) *	n/a	n/a	n/a
CPI plus 4%	*5.8*	*6.0*	*4.2 **	*n/a*	*n/a*	*n/a*
Value added (lost) from active management	0.7	48.0	(9.1)	n/a	n/a	n/a
Canadian equities	2.4	11.6	29.0	15.5	36.6	18.4
S&P/TSX Composite Index	*4.0*	*11.4*	*28.4*	*13.9*	*37.7*	*18.5*
Value added (lost) from active management	(1.6)	0.2	0.6	1.6	(1.1)	(0.1)
United States equities	(17.6)	10.5	8.5	(1.7)	22.1	3.5
S&P 1500 Index	*(15.7)*	*9.9*	*9.1*	*(1.0)*	*20.5*	*3.8*
Value added (lost) from active management	(1.9)	0.6	(0.6)	(0.7)	1.6	(0.3)
Non-North American equities	(12.4)	17.7	23.9	7.4	40.9	14.1
MSCI EAFE Index	*(13.2)*	*18.7*	*20.0*	*6.2*	*40.5*	*13.0*
Value added (lost) from active management	0.8	(1.0)	3.9	1.2	0.4	1.1
Private equities	6.6	16.6	12.3	0.6	1.2	n/a
Consumer Price Index (CPI) plus 8%	*9.8*	*10.0*	*10.2*	*10.1*	*8.7*	*n/a*
Value added (lost) from active management	(3.2)	6.6	2.1	(9.5)	(7.5)	n/a
Overall	(2.5)	12.3	14.4	6.7	22.5	10.4
Policy Benchmark	*(1.8)*	*11.1*	*13.6*	*5.4*	*21.6*	*9.8*
Value added (lost) from active management	(0.7)	1.2	0.8	1.3	0.9	0.6

* Actual and benchmark returns are for nine months.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheet of the Alberta Risk Management Fund as at March 31, 2008 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, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Balance Sheet

As at March 31, 2008

	($ thousands)	
	2008	**2007**
Assets		
Cash and cash equivalents (Note 3)	$ 28,023	$ 26,530
Receivable from Province of Alberta	98	43
Accrued recoveries (Note 4)	231	267
	$ 28,352	$ 26,840
Liabilities and net liabilities		
Liabilities		
Accounts payable (Note 5)	$ 743	$ 483
Liability for accrued claims (Note 6)	28,996	30,021
	29,739	30,504
Net liabilities	(1,387)	(3,664)
	$ 28,352	$ 26,840

The accompanying notes are part of these financial statements.

Statement of Operations

For the year ended March 31, 2008

	($ thousands)		
	2008		2007
	Budget	Actual	Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 9,559	$ 10,735	$ 9,301
Other entities	1,207	521	490
Subrogation and salvage	300	203	137
Interest	1,412	1,350	1,197
	12,478	12,809	11,125
Expenses			
Insurance claims	6,346	6,504	5,658
Insurance premiums to insurers	1,463	2,054	1,321
Administration	1,441	1,349	1,305
Other services	618	625	507
	9,868	10,532	8,791
Net revenue	$ 2,610	2,277	2,334
Net liabilities at beginning of year		(3,664)	(5,998)
Net liabilities at end of year		$ (1,387)	$ (3,664)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2008

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 $ 29.0 million (2007: $30.0 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 $34.8 million as at March 31, 2008, or $5.8 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)).

   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 and accounts payable 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, 2008, securities held by the CCITF have an average effective market yield of 4.81% (2007: 4.39%) per annum and an average duration of 114 days (2007: 128 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

	($ thousands)	
	2008	**2007**
Payable to Department of Finance	$ 475	$ 381
Other	268	102
	$ 743	$ 483

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

	($ thousands)	
	2008	**2007**
Outstanding claims case reserves (a)	$ 14,474	$ 14,960
Incurred but not reported losses (b)	14,522	15,061
	$ 28,996	$ 30,021

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.

Note 6 (continued)

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, 2008 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:

	2008	2007
Trend rate		
General liability	5%	5%
Automobile liability	5%	5%
Property		
Through 2004 - 05	5%	5%
After 2004 - 05	10%	10%
Auto physical damage		
Through 2004 - 05	10%	10%
After 2004 - 05	15%	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)	$ 1.20	$ 1.28
Automobile liability		
Loss per vehicle	$ 120	$ 115
Property		
Loss per $million property values	$ 150	$ 135
Auto physical damage		
Loss per vehicle	$ 175	$ 145
Crime		
Loss per class A and B employee	$ 65	$ 62

Note 6 (continued)

b) INCURRED BUT NOT REPORTED (IBNR) LOSES (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, 2008:

Sensitivity Tests	Increase in Net Liabilities ($ million)
Increase the confidence level of the liability for accrued claims estimate from 50% to 90%	$ 5.8
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	3.4
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors	1.6

NOTE 7 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2008 are as follows:

	($ thousands)
2008-09	$ 160
2009-10	59
	$ 219

NOTE 8 CONTIGENT LIABILITIES

At March 31, 2008, 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

Year Ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheet of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2008 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, 2008 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

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

Balance Sheet

As at March 31, 2008

	($ thousands) 2008	2007
Assets		
Investments (Note 3)	$ 61,643	$ 58,081
Receivable from the Province of Alberta	371	400
	62,014	58,481
Liabilities		
Liability for investment purchases	-	75
	62,014	58,406
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 6)	62,014	58,406
Net Assets	$ -	$ -

Statement of Changes in Net Assets

For the year ended March 31, 2008

	($ thousands) 2008	2007
Increase in assets		
Contributions from the Province of Alberta		
Current service	$ 4,374	$ 4,981
Unfunded liabilities	860	2,419
Investment income (loss) (Note 7)		
Investment income (loss)	(1,520)	4,963
Investment expenses	(106)	(57)
	3,608	12,306
Decrease in assets		
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	3,608	12,306
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.

Notes to the Financial Statements

March 31, 2008
(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the Provincial Judges and Masters in Chambers Reserve Fund Directive *(Treasury Board Directive 03-01)*

The Reserve Fund is established to collect contributions from the Province of Alberta and to invest the funds, which are reserved to meet future benefit payments of the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan). The Unregistered Plan is established to provide additional pension benefits to Provincial Judges and Masters in Chambers whose pensionable earnings are in excess of the *maximum benefit accrual limit* as set out in the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Unregistered 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 Investment Management Corporation. 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.

b) VALUATION OF ASSETS AND LIABILITIES

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

The methods used to determine fair value of investments held either by the plan or by pooled investment funds is 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 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.

iii) The fair value of private income investments is estimated by managers or general partners of 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 earnings analyses.

iv) The fair value of private 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 the discounted cash flows.

v) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

Note 2 (continued)

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. 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.

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.

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) Credit default swaps are valued based on discount 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.

f) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta.

As at March 31, 2008, current service contributions rates are 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.

Note 2 (continued)

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 could be a variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in the valuation of the Fund's private 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 investments and real estate, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between 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.

NOTE 3 INVESTMENTS (Schedules A to E)

	($ thousands)			
	2008		2007	
	Fair Value		Fair Value	
Fixed Income		%		%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 4,445	7.2	$ 5,269	9.1
Universe Fixed Income Pool (b)	19,945	32.4	19,061	32.8
Private Mortgage Pool (c)	2,733	4.4	1,392	2.4
Currency Alpha Pool (d)	34	0.1	27	0.1
Tactical Asset Allocation Pool (e)	99	0.1	196	0.3
	27,256	44.2	25,945	
Equities				
Canadian Equities (Schedule B)				
Canadian Multi-Cap Pool (f)	2,782	4.5	991	1.7
Canadian Pooled Equities Fund (g)	2,586	4.2	2,541	4.4
Canadian Structured Equity Pool (h)	2,128	3.5	3,763	6.5
Canadian Equity Enhanced Index Pool (i)	1,372	2.2	1,317	2.3
Canadian Large Cap Equity Pool (j)	913	1.5	890	1.5
Growing Equity Income Pool (k)	532	0.8	530	0.9
Tactical Asset Allocation Pool(e)	-	-	(811)	(1.4)
	10,313	16.7	9,221	
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	6,995	11.4	7,167	12.3
Portable Alpha US Pool (m)	2,157	3.5	1,666	2.9
US Mid/Small Cap Equity Pool (n)	1,124	1.8	1,176	2.0
Growing Equity Income Pool (k)	143	0.3	174	0.3
Tactical Asset Allocation Pool (e)	-	-	802	1.4
	10,419	17.0	10,985	18.9
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (o)	7,860	12.7	7,611	13.1
EAFE Structured Equity Pooled (p)	1,969	3.2	1,908	3.3
Emerging Markets Equity Pool (q)	426	0.7	654	1.1
	10,255	16.6	10,173	17.5
Real Estate Schedule (E)				
Private Real Estate Pool (r)	2,752	4.5	1,368	2.4
Alternative Investments				
Private Income Pool (s)	648	1.0	389	0.7
	34,387	55.8	32,136	55.3
Total investments	$ 61,643	100.0	$ 58,081	55.3

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 DEX Bond Universe 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.

Note 3 (continued)

c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The pool invests primarily 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.

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, 2008 the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts

f) 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 comprised of investments in the External Managers Canadian Multi-Cap Pool. 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

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 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

i) The Canadian Equity Enhanced Index Pool consist 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.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are 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 style and unique market capitalization focus.

k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income 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.

l) The US 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 invest in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 (continued)

m) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

n) The US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager 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 for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style 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. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

p) The EAFE Structured Equity Pool'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.

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

r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. 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. The Pool is intended to provide diversification from the securities market.

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 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.

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Minister has established the following benchmark long-term policy asset mix for investments:

Fixed income securities	46.0%
Canadian equities	16.0%
U.S. equities	16.0%
Non-North American equities	16.0%
Real estate	4.0%
Private income	2.0%

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. 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 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. 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. 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.

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) Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified 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 specified period of time.

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, 2008:

	%			($ thousands)			
	2008					2007	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value	Notional Amount	Fair Value
Equity index swap contracts	93	7	-	$ 14,008	$ 39	$ 13,413	$ (18)
Credit default swap contracts	2	20	78	21,678	(137)	28,888	(97)
Swap option contracts	44	-	56	10,750	4	21,658	1
Interest rate swap contracts	6	14	80	11,001	(96)	11,690	(24)
Cross-currency interest rate swap contracts	15	52	33	3,933	25	4,327	118
Bond index swap contracts	100	-	-	2,052	98	6,753	9
Equity index futures contracts	100	-	-	3,050	101	4,463	109
Forward foreign exchange contracts	100	-	-	3,155	(36)	2,130	(11)
				$ 69,627	$ (2)	$ 93,322	$ 87

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 Fund attempts to limit its credit exposure by dealing with counter-parties with 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, 2008.

As at March 31, 2008, the Unregistered Plan reported an actuarial deficiency of $1.7 million (2007: surplus of $3.9 million), taking into account the amounts owing from the Reserve Fund.

NOTE 7 NET INVESTMENT INCOME (LOSS)

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

	($ thousands)	
	2008	2007
Net realized and unrealized gain (loss) on investments including those arising from derivative transactions	$ (3,923)	$ 2,815
Interest income	1,770	1,670
Dividend income	501	441
Real estate income	112	25
Securities lending income	20	12
	(1,520)	4,963
Investment Expenses	(106)	(57)
	$ (1,626)	$ 4,906

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

	($ thousands)	
	2008	2007
Fixed Income Securities	$ 935	$ 1,254
Canadian Equities	248	1,026
Foreign Equities		
United States	(1,968)	938
Non-North American	(1,289)	1,545
Real Estate	404	135
Alternative investments - private income	44	8
	$ (1,626)	$ 4,906

NOTE 8 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 presentation.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)	
	Reserve Fund's Share	
	2008	2007
Deposits and short-term securities	$ 4,827	$ 5,427
Fixed income securities (a)		
Government of Canada, direct and guaranteed	4,620	4,644
Alberta, direct	6	7
Other provinces, direct and guaranteed	2,763	2,813
Municipal	1	9
Corporate, public and private	14,866	12,944
	22,256	20,417
Receivable from sale of investments and accrued investment income	395	207
Accounts payable and accrued liabilities	(222)	(106)
	173	101
	$ 27,256	$ 25,945

(a) Fixed income securities held as at March 31, 2008 had an average effective market yield of 4.99% per annum (2007: 4.54% per annum). The following term structure of these securities as at March 31, 2008 was based on principal amount:

	%	
	2008	2007
under 1 year	4	4
1 to 5 years	29	32
6 to 10 years	38	35
11 to 20 years	11	10
over 20 years	18	19
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Reserve Fund's Share	
	2008	2007
Deposits and short-term securities	$ 234	$ 61
Public equities (a) (b)		
Consumer discretionary	503	569
Consumer staples	234	245
Energy	2,720	2,329
Financials	2,790	3,026
Health care	15	62
Industrials	538	473
Information technology	483	381
Materials	1,716	1,410
Telecommunication services	557	550
Utilities	87	80
	9,643	9,125
Pooled investment fund	444	-
Receivable from sale of investments and accrued investment income	61	138
Liabilities for investment purchases	(69)	(103)
	(8)	35
	$ 10,313	$ 9,221

(a) Direct investments and derivative contracts are classified based on the 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 totaling $3,619 (2007: $2,510).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands)	
	Reserve Fund's Share	
	2008	2007
Deposits and short-term securities	$ 315	$ 59
Public equities (a) (b)		
Consumer discretionary	975	1,191
Consumer staples	1,068	996
Energy	1,333	1,056
Financials	1,784	2,350
Health care	1,229	1,316
Industrials	1,334	1,277
Information technology	1,647	1,634
Materials	440	374
Telecommunication services	335	359
Utilities	399	409
	10,544	10,962
Pooled investment fund	18	-
Receivable from sale of investments and accrued investment income	51	60
Accounts payable and accrued liabilities	(509)	(96)
	(458)	(36)
	$ 10,419	$ 10,985

(a) Direct investments and derivative 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 totaling $7,816 (2007: $7,917).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands)	
	Reserve Fund's Share	
	2008	2007
Deposits and short-term securities	$ 188	$ 108
Public equities (a) (b)		
Consumer discretionary	1,081	1,210
Consumer staples	865	664
Energy	850	659
Financials	2,053	2,761
Health care	717	598
Industrials	1,425	1,427
Information technology	604	659
Materials	944	729
Telecommunications services	778	594
Utilities	548	500
	9,865	9,801
Emerging market pooled funds	236	273
	10,101	10,074
Receivable from sale of investments and accrued investment income	152	122
Accounts payable and accrued liabilities	(186)	(131)
	(34)	(9)
	$ 10,255	$ 10,173

(a) Direct investments and derivative contracts are classified 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 $2,140 (2007: $1,891)

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

	($ thousands)	
	Reserve Fund's Share	
	2008	2007
United Kingdom	$ 2,140	$ 2,061
Japan	1,887	1,935
France	1,110	1,102
Germany	961	781
Switzerland	661	543
Netherlands	406	473
Spain	451	404
Australia	415	378
Italy	353	320
Hong Kong	247	174
Other	1,470	1,903
	$ 10,101	$ 10,074

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands)	
	Fund's share	
	2008	2007
Deposits and short-term securities	$ 4	$ 2
Real Estate (a)		
Office	1,225	656
Retail	859	431
Industrial	408	171
Residential	156	60
	2,648	1,318
Participation units	99	47
Accrued income and accounts receivable	1	1
	$ 2,752	$ 1,368

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

	($ thousands)	
	Fund's share	
	2008	**2007**
Ontario	$ 1,422	$ 771
Alberta	943	401
Quebec	226	121
British Columbia	57	25
	$ 2,648	$ 1,318

SCHEDULE OF INVESTMENT RETURNS

Schedule F

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.

	2008	2007
Annual Time-weighted rates of return		
Short-term fixed Income	**4.4**	**4.3**
DEX 91-day T-Bill Index	*4.6*	*4.2*
Value added (lost) from active management	*(0.2)*	*0.1*
Long-term fixed income	**3.1**	**5.9**
DEX Bond Universe Index	*5.8*	*5.5*
Value added (lost) from active management	*(2.7)*	*0.4*
Canadian equities	**2.4**	**11.5**
S&P/TSX Composite Index	*4.0*	*11.4*
Value added (lost) from active management	*(1.6)*	*0.1*
United States equities	**(17.9)**	**10.4**
Standard &Poor's 1500 Index	*(15.7)*	9.9
Value added (lost) from active management	*(2.2)*	0.5
Non-North American equities	**(12.3)**	**17.5**
MSCI EAFE Index	*(13.2)*	*18.7*
Value added (lost) from active management	*0.9*	*(1.2)*
Real Estate (a)	**16.8**	**n/a**
IPD Large Institutional All Property Index(a)	*14.6*	*n/a*
Value added (lost) from active management	*2.2*	*n/a*
Alternative investments	**8.7**	**4.4**
Combined benchmark	*7.8*	*3.3*
Value added (lost) from active management	*0.9*	*1.1*
Overall	**(2.1)**	**9.3**
Policy Benchmark	***(0.8)***	***9.3***
Value added (lost) from active management	(1.3)	0.0

The current sector benchmark indices are as of March 31, 2008. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheet of the Supplementary Retirement Plan Reserve Fund as at March 31, 2008 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, 2008 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Balance Sheet

As at March 31, 2008

	($ thousands)	
	2008	2007
Assets		
Investments (Note 3)	$ 29,300	$ 28,068
Receivable from sale of investments	100	-
Receivable from participating employers	198	71
	29,598	28,139
Liabilities		
Liability for investment purchases	(150)	(40)
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(29,448)	(28,099)
Net Assets	$ -	$ -

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

Statement of Changes in Net Assets

For year ended March 31, 2008

	($ thousands)	
	2008	2007
Net Investment income (loss) (Note6)		
Net investment income (loss)	$ (1,129)	$ 2,987
Investment expenses	(78)	(40)
	(1,207)	2,947
Contributions	2,555	1,072
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(1,348)	(4,019)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	$ -	$ -

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

Notes to the Financial Statements

March 31, 2008

(*all dollar values in thousands, unless otherwise stated*)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

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 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 Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

b) VALUATION OF ASSETS AND LIABILITIES

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

The methods used to determine fair value of investments held either by the Reserve Fund plan or by pooled investment funds is 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 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.

iii) The fair value of private 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 the discounted cash flows.

iv) The fair value of private equity and income investments is estimated by managers or general partners of 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 earnings analyses.

v) The fair value of timberland investments is appraised annually by independent third party valuators.

vi) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

Note 2 (continued)

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. 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.

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) 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.

f) LIABILITIES

Accrued Liabilities of the Reserve Fund are funded by investment income and contributions from the participating employers. Contribution rates are set by the Minister of Finance, taking into account recommendations of the SRP's Actuary.

The rate in effect at March 31, 2008 was 11.6% (2007: 5.8%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensions 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 could be a material variance between the recognized amount and another reasonably possible amount.

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.

Note 2 (continued)

g) MEASUREMENT UNCERTAINTY (continued)

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 change 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.

NOTE 3 INVESTMENTS (Schedules A to E)

	($ thousands)			
	2008		2007	
	Fair Value		Fair Value	
Fixed Income		%		%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 134	0.5	$ 134	0.5
Universe Fixed Income Pool (b)	5,932	20.2	6,429	22.9
Private Mortgage Pool (c)	2,041	7.0	1,455	5.2
Currency Alpha Pool (d)	60	0.2	48	0.2
Tactical Asset Allocation Pool (e)	58	0.2	113	0.4
	8,225	28.1	8,179	29.2
Equities				
Canadian Equities (Schedule B)				
Canadian Multi-Cap Pool (f)	1,680	5.7	571	2.0
Canadian Pooled Equities Fund (g)	1,559	5.3	1,436	5.1
Canadian Structured Equity Pool (h)	1,247	4.3	2,091	7.5
Canadian Equity Enhanced Index Pool (i)	744	2.6	691	2.5
Canadian Large Cap Equity Pool (j)	560	1.9	579	2.1
Growing Equity Income Pool (k)	347	1.2	308	1.1
Tactical Asset Allocation Pool(e)	-	-	(464)	(1.7)
	6,137	21.0	5,212	18.6
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	4,081	13.9	4,071	14.5
Portable Alpha US Pool (m)	1,276	4.4	1,042	3.7
US Mid/Small Cap Equity Pool (n)	708	2.4	673	2.4
Growing Equity Income Pool (k)	94	0.3	102	0.4
Tactical Asset Allocation Pool (e)	-	-	458	1.6
	6,159	21.0	6,346	22.6
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (o)	4,517	15.4	4,415	15.7
EAFE Structured Equity Pooled (p)	1,463	5.0	1,394	5.0
Emerging Markets Equity Pool (q)	246	0.8	380	1.3
	6,226	21.2	6,189	22.0
Real Estate Schedule (E)				
Private Real Estate Pool (r)	1,908	6.5	1,720	6.1
Alternative Investments				
Private Income Pool (s)	393	1.4	236	0.8
Timberland Pool (t)	182	0.6	186	0.7
Global Private Equity Pool (u)	70	0.2	-	-
	645	2.2	422	1.5
Total equities	21,075	71.9	19,889	70.8
Total investments	29,300	100.0	$ 28,068	100.0

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 is managed with the objective of providing competitive returns comparable to the total return of the DEX Bond Universe 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 DEX Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The pool invests primarily 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.

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, 2008 the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

f) 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 comprised of investments in the External Managers Canadian Multi-Cap Pool. 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

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 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

i) The Canadian Equity Enhanced Index Pool consist 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.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are 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 style and unique market capitalization focus.

k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income 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.

Note 3 (continued)

l) The US 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 invest in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

m) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

n) The US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager 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 for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style 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. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

p) The EAFE Structured Equity Pool'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.

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

r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. 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. The Pool is intended to provide diversification from the securities market.

s) The Private Income Pool are 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.

t) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

u) The Global Private Equity Pool are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. 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.

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. In order to earn the best possible return at an acceptable level of risk, the Minister established the following benchmark long-term policy asset mix for investments:

Fixed income securities	41.0%
Canadian equities	16.0%
U.S. equities	15.0%
Non-North American equities	15.0%
Real estate	5.0%
Private income	4.0%
Timberlands	2.0%
Private equities	2.0%

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 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. 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. 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.

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) Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified 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 specified period of time.

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, 2008:

	Maturity			2008		2007	
	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	93	7	-	$ 8,570	$ 29	$ 7,986	$ (9)
Cross-currency interest rate swaps	17	59	24	2,043	1	2,296	70
Interest rate swap contracts	9	22	69	4,190	(56)	4,587	(14)
Credit default swap contracts	3	22	75	6,797	(49)	9,940	(32)
Bond index swap contracts	100	-	-	732	56	2,306	7
Equity index futures contracts	100	-	-	1,431	53	2,546	62
Forward foreign exchange contracts	100	-	-	3,617	(28)	2,554	(7)
Swap option contracts	44	0	56	3,197	1	7,305	1
				$ 30,577	$ 7	$ 39,520	$ 78

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 INVESTMENT INCOME (loss)

Net investment income is comprised of the following:

	2008	2007
	($ thousands)	
Investment income (loss)		
Net realized and unrealized gains (loss) on investment including those arising from derivative transactions	$ (2,280)	$ 1,941
Interest income	764	669
Dividend income	300	307
Real estate operating income	76	62
Security lending income	11	8
	(1,129)	2,987
Investment expenses	(78)	(40)
	$ (1,207)	$ 2,947

Note 6 (continued)

The following is a summary of the Reserve Fund's net investment income (loss) by type of investments:

	($ thousands)	
	2008	**2007**
Fixed Income Securities	$ 305	$ 462
Canadian Equities	133	597
Foreign Equities		
United States	(1,156)	556
Non-North American	(814)	947
Real Estate	287	315
Alternative investments		
Timberland	11	65
Private income	27	5
	$ (1,207)	$ 2,947

NOTE 7 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 the extrapolated to December 31, 2007.

As at December 31, 2007 the SRP reported an actuarial surplus of 1.5 million (2006: 3.7 million), taking into account the amounts receivable from Reserve Fund.

NOTE 8 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2007 presentation

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

These Financial statements were approved by the Deputy Minister of Finance

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	Reserve Fund's Share ($ thousands)	
	2008	**2007**
Deposits and short-term securities	$ 320	$ 242
Fixed income securities		
Government of Canada, direct and guaranteed	1,380	1,585
Alberta, direct	2	2
Other provinces, direct and guaranteed	889	1,008
Municipal	-	3
Corporate, public and private	5,580	5,302
	7,851	7,900
Receivable from sale of investments and accrued investment income	124	74
Accounts Payable and Accrued Liabilities	(70)	(37)
	54	37
	$ 8,225	$ 8,179

Fixed income securities held as at March 31, 2008 had an average effective market yield 4.98% per annum (2007: 4.61% per annum) and the following term structure based on principal amount:

	%	
	2008	**2007**
under 1 year	4	4
1 to 5 years	26	29
6 to 10 years	42	38
11 to 20 years	10	10
over 20 years	18	19
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	Reserve Fund's Share ($ thousands) 2008	2007
Deposits and short-term securities	$ 141	$ 37
Public equities (a) (b)		
Consumer discretionary	303	324
Consumer staples	140	139
Energy	1,621	1,312
Financials	1,670	1,708
Health care	9	35
Industrials	322	270
Information technology	287	216
Materials	1,023	792
Telecommunication services	334	314
Utilities	51	45
	5,760	5,155
Pooled investment funds	241	-
Receivable from sale of investments and accrued investment income	36	79
Accounts payable and accrued liabilities	(41)	(59)
	(5)	20
	$ 6,137	$ 5,212

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 $2,157 (2007: $2,375).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIIES

Schedule C

	Reserve Fund's Share ($ thousands)	
	2008	**2007**
Deposits and short-term securities	$ 186	$ 36
Public equities (a) (b)		
Consumer discretionary	579	688
Consumer staples	627	575
Energy	785	610
Financials	1,055	1,359
Health care	725	760
Industrials	790	737
Information technology	973	943
Materials	262	216
Telecommunication services	197	207
Utilities	237	236
	6,230	6,331
Pooled investment funds	11	-
Receivable from sale of investments and accrued investment income	30	35
Accounts payable and accrued liabilities	(298)	(56)
	(268)	(21)
	$ 6,159	$ 6,346

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve 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 $4,578 (2007: $4,595).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIIES

Schedule D

	Reserve Fund's Share ($ thousands) 2008	2007
Deposits and short-term securities	$ 108	$ 65
Public equities (a) (b)		
Consumer discretionary	659	735
Consumer staples	528	408
Energy	516	401
Financials	1,272	1,687
Health care	435	366
Industrials	862	860
Information technology	365	398
Materials	580	448
Telecommunications services	467	360
Utilities	336	306
	6,020	5,969
Emerging market pooled funds	136	158
	6,156	6,127
Receivable from sale of investments and accrued investment income	85	74
Accounts Payable and accrued liabilities	(123)	(77)
	(38)	(3)
	$ 6,226	$ 6,189

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Funds' 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 $1,580 (2007: $1,379).

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

	Reserve Fund's Share ($ thousands) 2008	2007
United Kingdom	$ 1,305	$ 1,261
Japan	1,155	1,185
France	676	668
Germany	584	475
Switzerland	405	334
Netherlands	243	285
Spain	275	246
Australia	261	236
Italy	217	196
Sweden	149	114
Other	886	1,127
	$ 6,156	$ 6,127

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	Reserve Fund's Share ($ thousands) 2008	2007
Deposits and short-term securities	$ 3	$ 2
Real estate (a)		
Office	849	825
Retail	595	542
Industrial	283	215
Residential	108	75
	1,835	1,657
Participation Units	69	60
Accrued income and accounts receivable	1	1
	$ 1,908	$ 1,720

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

	Reserve Fund's Share ($ thousands) 2008	2007
Ontario	$ 986	$ 969
Alberta	654	504
Quebec	156	152
British Columbia	39	32
	$ 1,835	$ 1,657

SCHEDULE OF INVESTMENT RETURNS

Schedule F

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.

	2008	2007	2006	2005	4 Year Compound Annualized Return
Annual Time-weighted rates of return					
Short-term fixed income	**5.1**	**6.8**	**3.0**	**3.0**	**4.3**
DEX 91-day T-Bill Index	*4.6*	*4.2*	*2.8*	*2.2*	*3.5*
Value added (lost) from active management	*0.5*	*2.6*	*0.2*	*0.8*	*0.8*
Long-term fixed income	**3.5**	**5.3**	**6.3**	**5.6**	**5.4**
DEX Bond Universe Index	*5.9*	*4.9*	*5.6*	*5.0*	*5.4*
Value added (lost) from active management	*(2.4)*	*0.4*	*0.7*	*0.6*	*0.0*
Canadian equities	**2.3**	**11.5**	**29.0**	**14.7**	**13.8**
S&P/TSX Composite Index	*4.0*	*11.4*	*28.4*	*13.9*	*14.1*
Value added (lost) from active management	*(2.4)*	*0.4*	*0.7*	*0.6*	*(0.3)*
United States Equities	**(17.9)**	**10.5**	**8.3**	**(1.3)**	**(1.2)**
Standard & Poor's 1500 Index	*(15.7)*	*9.9*	*9.1*	*(1.0)*	*0.0*
Value added (lost) from active management	*(2.2)*	*0.6*	*(0.8)*	*(0.3)*	*(1.2)*
Non-North American equities	**(12.6)**	**17.7**	**23.6**	**7.0**	**7.6**
MSCI EAFE Index	*(13.2)*	*18.7*	*20*	*6.2*	*7.0*
Value added (lost) from active management	*0.6*	*(1.0)*	*3.6*	*0.8*	*0.6*
Real Estate	**16.7**	**25.1**	**21.3**	**13.9**	**n/a**
IPD Large Institutional All Property Index	*14.6*	*20.9*	*18.1*	*17.6*	n/a
Value added (lost) from active management	*2.1*	*4.2*	*3.2*	*(3.7)*	n/a
Alternative Investments	**8.3**	**21.8**	**n/a**	**n/a**	**n/a**
Combined benchmark	*6.8*	*6.5*	n/a	n/a	n/a
Value added (lost) from active management	*1.5*	*15.3*	n/a	n/a	n/a
Overall	**(2.4)**	**10.2**	**13.3**	**6.7**	**6.8**
Policy Benchmark	***(0.9)***	***10.0***	***12.4***	***6.2***	***6.8***
Value added (lost) from active management	*(1.5)*	*0.2*	*0.9*	*0.5*	*0.0*

The current sector benchmark indices are as of March 31, 2008. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

Provincial Agencies and Non-commercial Crown-controlled Corporations

ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

December 31, 2007

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, 2007 and the statement of net income, comprehensive income and retained earnings and cash flows 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, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
February 7, 2008

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

Balance Sheet

As at December 31, 2007

	($ thousands)	
	2007	**2006**
	(Note 2a)	
Assets:		
Cash (Note 3)	$ 16,272	$ 20,800
Accrued interest receivable	-	103,245
Loans to local authorities (Note 4)	6,009,624	4,898,705
Derivatives in favourable position (Note 6)	50,230	-
	$ 6,076,126	$ 5,022,750
Liabilities and Shareholders' Equity:		
Liabilities:		
Accounts payable	$ 733	$ 741
Accrued interest payable	-	56,086
Debt (Note 5)	5,929,014	4,950,185
Derivatives in unfavourable position (Note 6)	64,489	-
	5,994,236	5,007,012
Shareholders' equity:		
Share capital (Note 7)		
Issued and fully paid:		
6,390 shares	64	64
Retained earnings (Note 2a)	81,826	15,674
	81,890	15,738
	$ 6,076,126	$ 5,022,750

The accompanying notes are part of these financial statements

D.O. Lussier
Chair of the Board

T. S. Stroich, FCA
President

Statement of Net Income, Comprehensive Income and Retained Earnings

For the Year Ended December 31, 2007

($ thousands)

	Budget (Note 11)	Actuals 2007	Actuals 2006 (Note 2a)
Interest Income:			
Loans	$ 292,078	$ 307,432	$ 284,849
Amortization of loan discounts	2,282	-	4,027
Investments (Note 3)	7,400	4,359	5,517
	301,760	311,791	294,393
Interest Expense:			
Debt	293,031	301,763	290,082
Commission fees	-	4,200	-
Amortization of net discounts on debt	1,428	-	1,556
	294,459	305,963	291,638
Net interest income	7,301	5,828	2,755
Other Income:			
Loan prepayment fees	-	58	2,127
Net interest income and other income	7,301	5,886	4,882
Non-Interest Expense:			
Administration and office expenses (Note 8)	705	659	881
Income before unrealized gains (losses)	6,596	5,227	4,001
Unrealized loss on loans	-	(65,954)	-
Unrealized gain on debt	-	73,210	-
Unrealized loss on derivatives	-	(4,074)	-
Total unrealized gain	0	3,182	0
Net income and comprehensive income (Note 2d)	6,596	8,409	4,001
Retained earnings, beginning of year (Note 2a)	16,051	73,417	11,673
Retained earnings, end of year	$ 22,647	$ 81,826	$ 15,674

The accompanying notes are part of the financial statements.

Statement of Cash Flows

For Year ended December 31, 2007

	($ thousands)	
	2007	**2006**
	(Note 2a)	
Operating Activities:		
Interest received	$ 310,252	$ 291,266
Investment interest	4,359	5,517
Loan prepayment fees	58	2,127
Commission fees	(4,200)	-
Administration and office expenses	(559)	(881)
Interest paid	(295,107)	(287,006)
Cash flows from operating activities	14,803	11,023
Investing Activities:		
Loan repayments	505,056	446,349
New loans issued	(1,240,305)	(1,047,671)
Cash flows used in investing activities	(735,249)	(601,322)
Financing Activities:		
Debt issues	1,551,905	1,171,191
Debt redemptions	(835,987)	(570,396)
Cash flows from financing activities	715,918	600,795
Net (decrease) increase in cash	(4,528)	10,496
Cash, beginning of year	20,800	10,304
Cash, end of year	$ 16,272	$ 20,800

The accompanying notes are part of the financial statements.

Notes to the Financial Statements

December 31, 2007
(all amounts presented in thousands of dollars, except share amounts)

NOTE 1 AUTHORITY

The Alberta Capital Finance Authority (ACFA) operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, the Authority is restricted to making loans only to its shareholders.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTISES

These financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and include the following changes to/and significant accounting policies.

a) CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, ACFA adopted new or revised accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): CICA Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861; Financial Instruments – Disclosure and Presentation; Section 3865, Hedges. The adoption of new accounting policies to comply with these standards, often collectively referred to as “the financial instruments standards” or “the new standards”, resulted in certain changes to ACFA accounting for financial instruments and hedges. As these new policies have been adopted prospectively, prior period results have not been restated and certain transition adjustments have been recorded in opening retained earnings as of January 1, 2007.

Prior to adopting the new standards, ACFA accounted for virtually all of its financial assets (principally cash resources and loans) and financial liabilities (principally long-term debt) on an accrual basis and measured them at cost or amortized cost, as applicable. ACFA’s derivative contracts that qualified for hedge accounting were accounted for on an accrual basis. Income and expenses on derivative financial instruments designated and qualifying as hedges were 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. The face value of the derivative contracts were not recorded on the Balance Sheet during the life of the hedging relationship. Accrued interest receivable and payable on these derivative financial instruments are recorded in accrued interest receivable and payable respectively, in the Balance Sheet.

Section 3855 establishes a framework for the recognition and measurement of financial assets, financial liabilities, and non-financial derivatives. All existing financial instruments have been classified as held for trading as of January 1, 2007 according to this new framework. Any new financial instruments entered into after that date will be classified on inception and will be recorded on the Balance Sheet at fair value. All previously designated hedging relationships have been voluntarily de-designated.

Changes in fair value (realized or unrealized gains or losses) of financial assets and liabilities will be recorded in net income in the Statement of Income and Retained Earnings. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

The new standards for financial instruments require all derivative financial instruments, including embedded derivatives, to be classified as held-for-trading and measured at fair value on the Balance Sheet beginning January 1, 2007. Derivatives having positive fair value are presented as derivative assets and those having negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are now recorded in net income.

Transaction costs related to held for trading financial instruments are expensed as incurred. Prior to January 1, 2007, transaction costs (syndicate commissions) related to the issuance of debt were amortized on a straight line basis therefore an adjustment of $7,202 was made to opening retained earnings to recognize the unamortized portion of these costs.

Note 2 (continued)

a) Changes in Accounting Policies (continued)

On ACFA's adoption of new accounting policies for financial instruments, the following transition adjustments have been recorded as adjustments to the opening January 1, 2007 balances of assets, liabilities and retained earnings:

		31-Dec-06	
	Cost	Fair Value	Adjustment
Assets			
Loans, including accrued interest	$5,001,950	$5,343,149	$341,199
Derivative instruments		38,943	38,943
			380,142
Liabilities			
Debt, including accrued interest	$5,006,271	$5,279,542	$273,271
Derivative instruments		49,128	49,128
			322,399
Cumulative impact of adopting the financial instruments standards			57,743
Retained earnings, beginning of year, as issued			15,674
Retained earnings, beginning of year, as restated			73,417

b) FUTURE ACCOUNTING CHANGES

The following summarizes future accounting changes that will be relevant to ACFA's financial statements subsequent to January 1, 2008.

Capital Disclosures

The CICA has issued a new accounting standard that establishes requirements for Capital Disclosures. This will be effective for ACFA commencing January 1, 2008 and requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital and whether an entity has complied with any capital requirements and consequences of non-compliance with such capital requirements.

Financial Instruments – Disclosure

The CICA has issued two new accounting standards Section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments - Presentation on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for ACFA commencing January 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which ACFA is exposed and how it manages those risks.

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.

Note 2 (continued)

d) COMPREHENSIVE INCOME

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income may include any unrealized gains and losses on available-for-sales securities and changes in the fair market value of derivative instruments designated as cash flow hedges. As ACFA did not have any other comprehensive income in January 1, 2007 or December 31, 2007, the adoption of this section did not have an impact on the financial statements.

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, 2007, securities held by the Fund have an average net return of 4.48% per annum (December 31, 2006 - 4.55% per annum).

The fair value of cash approximates its carrying value.

NOTE 4 LOANS TO LOCAL AUTHORITIES

	($ thousands)	
	2007	**2006**
Fair Value	$ 6,009,624	$ 5,343,494
Contractual principal	5,637,888	4,902,639
Unamortized discount	(1,652)	(3,934)
Accrued interest receivable	100,425	103,245
	$ 5,736,661	$ 5,001,950

The fair value of Loans are valued based on future interest and principal cash flows for all loans using a discount factor curve to determine the present value of each cash flow.

The discount factor curve is calculated using ACFA's estimated market borrowing rates as a base and adding a premium of 12 basis points to this curve. ACFA's borrowing rates are used as a base as it is assumed based on payment history and security covenants in place, that the loan portfolio has credit risk similar to that of ACFA. The premium of 12 basis points is added to these rates as it is expected that a portfolio of loans with amortizing payments would require a higher rate if sold in the market. The premium was determined through analysis of premiums for amortizing bonds trading in the bond market. The estimated sensitivity of the fair value of loans to a change in the discount factor of one (1) basis point is $3,803.

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

NOTE 5 DEBT

	($ thousands)	
	2007	**2006**
Fair Value	$ 5,929,014	$ 5,279,542
Contractual principal	5,678,476	4,963,963
Unamortized discount	(12,374)	(13,778)
Accrued interest payable	62,850	56,086
	$ 5,728,952	$ 5,006,271

Market rates for ACFA debt are based on credit spread indications for new debt issues received from ACFA's borrowing syndicate managers and are determined by taking Government of Canada bond interest rates at the close of business on the last business day of the period and adding the indicative new issue spread to these rates. The estimated sensitivity of the fair value of debt to a change of one (1) basis point in the rate used to calculate fair value is $3,832.

Bonds (i.e. bullets with no options with the entire principal amount paid at maturity) are valued by interpolating the yield to maturity for each individual bond from the calculated indicative borrowing rates. This yield to maturity is used to calculate the market value, including accrued interest, for each bullet bond using common bond pricing methodology.

Structured notes, including step up notes and accrual notes, are valued using formulas that require a discount factor curve, which is computed from the indicative borrowing rates and inputs on option volatility as estimated in the swap market.

The debt of ACFA is fully guaranteed by the Province of Alberta.

Debt amounting to $762,513 (2006 - $643,000) is comprised of a combination of various issues of step-up and accrual notes whereby ACFA 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 ACFA at the predetermined extension or call date, or upon final maturity of the debt (Schedule 1).

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:

2008	$1,049,807
2009	330,523
2010	212,000
2011	250,000
2012	500,000
	$2,342,330

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments used by ACFA include interest rate swaps and forward rate agreements.

The interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans and 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 - 2007	$1,450,216	$14,154	$220,360	$1,061,787	$3,716,037	$6,462,554
Interest rate swaps - 2006	$ 652,290	$ 639	$181,175	$ 976,856	$2,516,099	$4,327,059

The cost of replacing the remaining cash flows of the derivative financial instruments at the prevailing prices and market rates are summarized as follows:

			Current Replacement Cost	
	Notional Outstanding	**Net Fair Value**	**Contracts in Favourable Position**	**Contracts in Unfavourable Position**
Interest rate contracts				
Interest rate swaps - 2007	$ 6,462,554	$ (14,259)	$ 50,230	$ (64,489)
Interest rate swaps - 2006	$ 4,327,059	$ (10,185)	$ 38,943	$ (49,128)

Fair values are determined using models based on third party valuation software which takes 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) and are recorded as derivative assets and derivative liabilities respectively. Changes in the fair value of derivative instruments are now recorded in income. The estimated sensitivity of the fair value of derivatives in a favourable and unfavourable position to a change in the rate of one (1) basis point is $798 and $690 respectively.

Current credit exposure is limited to the amount of loss that the Authority would suffer if every counterparty to which ACFA was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favorable position. ACFA actively monitors their exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing (A+ or greater).

NOTE 7 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	874	8,740
C	Cities		750	585	5,850
D	Towns and villages		750	294	2,940
E	Educational authorities		500	137	1,370
		2007	7,500	6,390	$ 63,900
		2006	7,500	6,384	$ 63,840

During the year, nine Class B were issued and three Class D shares were cancelled at $10.00 each.

NOTE 8 DIRECTORS' AND AUDIT COMMITTEE FEES AND RELATED PARTY TRANSACTIONS

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

	2007		2006	
	Number of Individuals	Total	Number of Individuals	Total
Board/Audit Committee Chairs	2	$ 8	2	$ 7
Board/Audit Committee members	8	$ 19	8	$ 20

There are two additional Board members who are employees of the Province of Alberta and do not receive compensation from ACFA.

ACFA 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 was advanced to qualifying municipalities by ACFA and repayments of principal are made by the municipality; however, the interest is paid by the Province of Alberta. The program has been discontinued but the loans will continue until they are paid out. Included in the balance of loans to local authorities at December 31, 2007 is principal of $24,247 (2006 - $15,568), upon which, interest of $959 (2006 - $560) has been recorded in interest income from loans.

ACFA has no employees. Included in administration and office expenses of $659 (2006 - $881) is the amount of $420 (2006 - $406) that was paid to the controlling shareholder, Province of Alberta for goods and services at prices measured at the exchange amount, which approximate market.

NOTE 9 INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its financial assets are not matched with the maturities of its financial debt. The following table summarizes the contractual principal amounts of ACFA's interest sensitive assets and liabilities based on the earlier of 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	2007 Total	2006 Total
Assets							
Cash	$ 16,272	$ -	$ -	$ -	$ -	$ 16,272	$ 20,800
Accrued Interest Receivable	100,425	-	-	-	-	100,425	103,245
Loans to Local Authorities	419,583	563,406	1,155,027	1,459,632	2,040,240	5,637,888	4,902,639
Effective Rate	5.9%	6.0%	5.6%	5.4%	5.2%	5.6%	6.0%
Total	$ 536,280	$ 563,406	$ 1,155,027	$ 1,459,632	$ 2,040,240	$ 5,754,585	$ 5,026,684
Liabilities							
Accrued Interest Payable	$ 62,850	$ -	$ -	$ -	$ -	$ 62,850	$ 56,086
Debt	1,049,807	330,523	962,000	1,800,000	1,536,146	$ 5,678,476	4,963,963
Effective Rate	6.2%	5.5%	5.2%	5.3%	5.5%	5.5%	5.7%
Total	$ 1,112,657	$ 330,523	$ 962,000	$ 1,800,000	$ 1,536,146	$ 5,741,326	$ 5,020,049
Cumulative Gap	$ (576,377)	$ 232,883	$ 193,027	$ (340,368)	$ 504,094	$ 13,259	$ 6,635

ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's surplus position. For most loans made after January 1, 2004, ACFA 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.

Liquidity Risk

Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations as they become due and also meet the loan requirements of our local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. When required, ACFA raises funds under a five-year Promissory Note Program, by direct borrowing in the Canadian or European market or by renewing borrowing from the Canada Pension Plan Investment Board.

NOTE 10 COMMITMENTS LEASE

ACFA has obligations under an operating lease for the rental of premises, expiring in July 2013 at an annual minimum as follows:

2008	$ 37
2009	50
2010	53
2011	54
2012	54
Total	$ 248

Loan Commitments

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit.

Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts and maturities, subject to certain conditions and are recently authorized loans not yet drawn down.

These loan arrangements are subject to ACFA's normal credit standards and collateral is obtained where appropriate. The loan amounts represent the maximum credit risk exposure to ACFA should the loans be fully drawn. The loan commitments represent future cash requirements and as at December 31 were:

	2007	2006
Loan commitments as at December 31	$ 11,000	$ 30,308

Debt Commitments
In the normal course of business, ACFA enters into debt commitments to insure ACFA obtains the necessary funds to make loans. These transactions may occur over the year end with the trading date prior to and the settlement date after the year end.

The debt transactions represent future cash receipts and as at December 31 were:

	2007	2006
Debt commitments as at December 31	$ 13,000	$ -

Proceeds of $13,000 from the 4.45% step-up note extendible at ACFA's option were received on January 4, 2008.

NOTE 11 BUDGET

The 2007 budget was approved by the Board of Directors on November 23, 2006.

NOTE 12 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

SCHEDULE TO THE FINANCIAL STATEMENT

SCHEDULE OF DEBT

Schedule 1

As at December 31, 2007

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Canada Pension Plan Investment Fund/CPP Investment Board					
Oct 03, 2008		10.040	259,294	$277,307	
Oct 02, 2009		9.990	291,414	327,818	
Nov 01, 2009		9.620	32,457	36,155	
Dec 01, 2009		9.260	6,652	7,339	
Oct 01, 2020		6.280	222,367	263,870	
Jun 01, 2022		6.060	100,000	116,540	
Apr 05, 2023		5.890	50,000	58,042	
Dec 01, 2023		5.500	150,000	166,705	
Dec 03, 2024		5.180	78,000	84,006	
Nov 3, 2026		4.490	200,000	199,409	
Nov 3, 2031		4.500	125,396	124,822	
Nov 2, 2032		4.830	190,383	198,818	
Total			1,705,963	1,860,831	
Public					
Jan 04, 2008		3.860	20,000	19,990	
Feb 01, 2008		3.860	20,000	19,921	
Mar 24, 2008	Mar 24, 2008	4.000	16,000	16,486	(i)
Mar 01, 2010		4.550	50,000	51,258	
Jun 15, 2010	Jun 15, 2008	4.400	10,000	10,198	(i)
Aug 20, 2010		4.500	150,000	153,879	
Nov 23, 2010	Nov 23, 2008	4.500	10,000	10,004	(i)
Jun 23, 2011	Jun 23, 2008	3.350	10,000	10,005	(i)
Sep 01, 2011		5.700	200,000	213,907	
Sep 06, 2011	Mar 06, 2008	4.350	10,000	10,045	(i)
Sep 11, 2011	Mar 11, 2008	4.350	20,000	20,078	(i)
Sep 15, 2011	Mar 15, 2008	3.600	10,000	9,903	(i)
Dec 15, 2011		4.435	50,000	50,508	
Dec 15, 2011	Jun 15, 2008	3.600	13,000	12,744	(i)
Mar 30, 2012	Mar 30, 2008	4.050	10,000	10,149	(i)
May 11, 2012	May 11, 2008	4.000	10,000	9,937	(i)
Jun 01, 2012		5.850	500,000	534,756	
Aug 28, 2012	Feb 28 2008	4.400	10,000	10,052	(i)
Jun 28, 2013	Jun 28, 2008	3.750	15,000	14,637	(i)
Oct 12, 2013	Apr 12, 2008	3.750	10,000	9,855	(i)
Oct 30, 2013	Apr 30, 2008	4.300	10,000	9,905	(i)
Nov 20, 2013	Nov 20, 2008	4.600	10,000	9,945	(i)
Dec 02, 2013		5.000	300,000	312,040	
Oct 22, 2014	Oct 22, 2008	4.800	10,000	9,995	(i)
Dec 15, 2014	Jun 15, 2008	4.750	25,000	24,864	(i)
Dec 15, 2014	Jun 15, 2008	4.600	30,000	29,740	(i)
Mar 23, 2015	Mar 23 2008	4.450	20,000	22,210	(ii)
Mar 30, 2015	Mar 30, 2008	4.150	15,000	15,200	(i)

SCHEDULE OF DEBT

Schedule 1 (continued)

As at December 31, 2007

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Public					
Apr 06, 2015	Apr 06, 2008	4.250	15,000	14,868	(i)
Jun 01, 2015		4.900	200,000	207,453	
Jun 15, 2015	Jun 15, 2008	4.050	10,000	9,962	(i)
Jun 15, 2015	Jun 15, 2008	4.200	45,000	44,081	(i)
Jun 15, 2015	Jun 15, 2008	4.050	17,000	16,871	(i)
Jun 15, 2015	Jun 15, 2008	3.450	15,000	14,495	(i)
Jun 23, 2015	Jun 23, 2008	3.800	15,000	15,884	(ii)
Jun 28, 2015	Jun 28, 2008	4.300	20,000	21,550	(ii)
Sep 15, 2015	Mar 15, 2008	4.240	10,000	10,610	(ii)
Dec 15, 2015	Jun 15, 2008	4.200	20,000	19,469	(i)
Jun 15, 2016	Jun 15, 2008	4.050	25,000	24,286	(i)
Jun 15, 2016		4.350	600,000	598,908	
Mar 15, 2017	Mar 15, 2008	4.715	15,513	15,140	(ii)
Apr 10, 2017	Apr 10, 2008	4.350	15,000	14,751	(i)
May 15, 2017	May 15, 2008	4.150	25,000	24,502	(i)
Jun 15, 2017		4.650	700,000	712,934	
Jun 16, 2017	Jun 16, 2008	4.200	18,000	17,551	(i)
Jun 28, 2017	Jun 28, 2008	4.100	30,000	28,912	(i)
Aug 15, 2017	Feb 15, 2008	4.100	35,000	34,341	(i)
Dec 15, 2017	Jun 15, 2008	4.100	10,000	9,713	(i)
Jun 01, 2018		5.150	100,000	106,119	
Nov 16, 2018	May 16, 2008	4.650	18,000	17,740	(i)
Nov 13, 2020	Nov 13, 2008	5.020	12,000	11,705	(ii)
Apr 18, 2022	Apr 18, 2010	5.000	12,000	12,085	(ii)
Jun 15, 2022	Jun 15, 2008	5.010	25,000	25,077	(ii)
Dec 01, 2023		5.100	20,000	21,322	
Jun 15, 2025	Jun 15, 2008	5.150	20,000	22,342	(ii)
Jul 06, 2025	Jan 06, 2008	5.020	16,000	17,603	(ii)
Dec 15, 2025		4.450	300,000	296,418	
Oct 11, 2030	Oct 11, 2008	5.160	15,000	16,049	(ii)
Dec 15, 2030	Jun 15, 2008	5.160	10,000	10,908	(ii)
Dec 15, 2030	Dec 15, 2008	5.410	10,000	11,242	(ii)
Dec 15, 2030	Jun 15, 2008	5.400	10,000	11,081	(ii)
Total			3,972,513	4,068,183	
Total debt 2007			$5,678,476	$5,929,014	
Total debt 2006			$4,963,963	$5,279,542	

(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 compounded semi-annually or annually, and pay interest and principal on termination.

ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2007

AUDITOR'S REPORT

To the Members of the Alberta Insurance Council

We have audited the statement of financial position of Alberta Insurance Council as at December 31, 2007 and the statement 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, 2007 and 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 18, 2008

Pricewaterhouse Coopers LLP
Chartered Accountants

Statement of Financial Position

As At December 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash (Note 4)	$ 5,033,447	$ 4,066,246
Accounts receivable	101,866	27,050
Prepaid expenses	60,224	67,181
	5,195,537	4,160,477
Deferred examination development costs (Note 5)	40,219	15,037
Property and equipment (Note 6)	800,322	439,965
	$ 6,036,078	$ 4,615,479
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 270,559	$ 278,200
Current portion of deferred tenant inducement (note 7)	34,890	-
Deferred license and assessment fee revenue	1,284,327	1,165,771
	1,589,776	1,443,971
Deferred tenant inducement (note 7)	156,638	-
	1,746,414	1,443,971
NET ASSETS		
Net assets		
Invested in property and equipment	800,322	439,965
Invested in program and development	40,219	15,037
Unrestricted	3,449,123	2,716,506
	4,289,664	3,171,508
	$ 6,036,078	$ 4,615,479

Approved by the Audit Committee

Stewart Douglas Mel Niebrugge

Statement of Changes in Net Assets

For The Year Ended December 31, 2007

	Invested in property and equipment	Invested examination development	Unrestricted	Total 2007	Total 2006
Balance - Beginning of year	$ 439,965	$ 15,037	$2,716,506	$3,171,508	$2,112,545
Excess of revenue over expenditures	(184,448)	(11,037)	1,313,641	1,118,156	1,058,963
Invested in property and equipment	544,805	-	(544,805)	-	-
Investment in examination development	-	36,219	(36,219)	-	-
Balance - End of year	$ 800,322	$ 40,219	$3,449,123	$4,289,664	$3,171,508

Statement of Operations

For The Year Ended December 31, 2007

	Budget 2007 (Unaudited)	2007	2006
Revenue			
License, assessment, examination and continuing education fees	$ 3,765,000	$ 4,376,766	$ 3,866,338
Interest and other	125,000	199,828	147,730
	3,890,000	4,576,594	4,014,068
Expenditures			
Salaries and benefits	2,235,000	1,918,226	1,699,457
Occupancy and premises	440,000	487,476	256,284
Councils, Boards and Committees (Note 8)	271,000	272,240	212,243
Amortization and depreciation	211,000	195,485	151,033
Communications	166,000	151,784	137,295
Office and administration	168,000	144,834	129,875
Professional fees	143,000	121,884	171,428
Travel	110,000	106,220	86,957
Software and computer	135,000	60,289	110,533
Total expenditures before special projects	3,879,000	3,458,438	2,955,105
Excess of revenue over expenditures	$ 11,000	$ 1,118,156	$ 1,058,963

Statement of Cash Flows

For The Year Ended December 31, 2007

	2007	2006
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures	$ 1,118,156	$ 1,058,963
Items not affecting cash		
Amortization of property and equipment	184,448	139,996
Amortization of examination and program development costs	11,037	11,037
Amortization of deferred tenant inducement	(34,890)	(4,336)
Loss on disposal of property and equipment	1,386	-
	1,280,137	1,205,660
Net changes in non-cash working capital items		
Increase in accounts receivable	(74,816)	(2,145)
Decrease (increase) in prepaid expenses	6,957	(37,324)
(Decrease) increase in accounts payable and accrued liabilities	(7,641)	119,620
Increase in deferred license and assesment fee revenue	118,556	63,149
	1,323,193	1,348,960
Investing activities		
Purchase of property and equipment	(546,191)	(279,890)
Receipt of tenant inducements	226,418	-
Expenditures on deferred examination development - net of recovery	(36,219)	-
Decrease in recoverable program development costs	-	1,757
	(355,992)	(278,133)
Increase in cash	967,201	1,070,827
Cash - Beginning of year	4,066,246	2,995,419
Cash - End of year	$ 5,033,447	$ 4,066,246
Supplementary information		
Interest received	$ 193,910	$ 137,158

Notes to the Financial Statements

December 31, 2007

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 judgment. 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.

Deferred Examination Development Costs

Costs which have been incurred by the Council for the development of Life License Qualification Program ("LLQP"), General and Insurance Adjusters examination questions have been deferred. Costs of examination questions, net of recoveries, are amortized on a straight-line basis over a period of three years upon integration of these questions into the examination question data bank. Questions developed for the LLQP were integrated into the examination question data bank in January 2005, and as at December 31, 2007 have been fully amortized. Questions for the General and Insurance Adjusters examinations are still in development , and have not been integrated into the examination data bank.

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

Note 2 (continued)

Deferred Tenant Inducement

Tenant inducement associated with leased premises is amortized on a straight-line basis over the term of the lease and recognized as a reduction of rent recorded in occupancy costs.

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 CHANGES IN ACCOUNTING POLICIES

a) FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

On January 1, 2007, the Council adopted Section 3855 of the Canadian Institute of Chartered Accountants ("CICA") Handbook – *Financial Instruments – Recognition measurement*. It contains the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value.

The Council has made the following classifications under the new standard:

i) Cash is classified as financial assets held for trading and measured at fair value. Gains and losses related to periodical evaluations are recorded in the statement of operations.

ii) Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective rate method.

iii) Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

The adoption of this section was done retroactively without restatement of the financial statements of the prior periods. As at January 1, 2007, there was no impact on the balance sheet from these classifications.

The Council does not have any derivative instruments including embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative.

b) HEDGES

Handbook Section 3865, *Hedges* allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges of a self-sustaining operation. Since the Council has not entered into any hedge transactions, this section did not have any impact on the Council's financial statements.

c) ACCOUNTING CHANGES

Effective January 1, 2007, the Council adopted the new Canadian Institute of Chartered Accountants ("CICA") revised Handbook Section 1506 *Accounting changes*. This new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements.

The adoption of these new standards did not have ant significant effect on the Council's financial statements for the year ended December 31, 2007.

Note 3 (continued)

d) RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

Effective January 1, 2008, the council will be required to adopt the following new accounting standards issued by the CICA:

CICA 3862 – *Financial Instruments – Disclosures*
CICA 3863– *Financial Instruments – Presentations*
CICA 1535 – *Capital Disclosures*

The Council has not yet assessed the impact of adopting these new standards on the financial position or reported results.

NOTE 4 CASH

Included in cash is an amount of $4,713,363 (2006: $3,550,740) 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 5 DEFERRED EXAMINATION DEVELOPMENT COSTS

			2007	2006
	Cost	Accumulated amortization	Net	Net
Examination development	$ 73,330	$ 33,111	$40,219	$15,037

NOTE 6 PROPERTY AND EQUIPMENT

			2007	2006
	Cost	Accumulated amortization	Net	Net
Leasehold improvements	$ 553,681	$142,272	$ 411,409	$179,524
Furniture and office equipment	278,174	125,456	152,718	83,665
Computer equipment	251,227	179,903	71,324	42,963
Computer software	581,481	456,970	124,511	93,945
Telephone equipment	49,203	8,843	40,360	39,868
	$1,713,766	$913,444	$ 800,322	$ 439,965

NOTE 7 DEFERRED TENANT INDUCEMENT

During 2007, the Council leased new office space for its Calgary office. Tenant inducement in the amount of $142,375 was received from the landlord with respect to leasehold improvements in the Calgary office. The tenant inducement was deferred and its being recognized as a reduction of rent during the eight year term of the lease.

In 2007, a tenant inducement in the amount of $84,043 was received from the landlord with respect to the leasehold improvements completed by the Council in 2005 on their Edmonton office space. The tenant inducement was deferred and it is being recognized as a reduction of rent during the five year term of lease.

NOTE 8 COUNCILS, BOARDS AND COMMITTEES

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

	2007	2006
Councils	$ 177,504	$ 131,015
Appeal Boards	16,169	12,523
Accreditation Committee	35,301	37,319
Council Committees	43,266	9,426
	$ 272,240	$ 190,283

NOTE 9 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:

2008	$ 211,764
2009	$ 211,372
2010	$ 211,040
2011	$ 206,016
2012	$ 150,750
Thereafter	$ 278,375

Contingent Liability

The Council secured is currently involved in legal proceedings related to the termination of a former lease on their Calgary office space and $50,000 has been accrued for costs associated with this matter.

NOTE 10 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 license and assessment fees, which are billed in advance. There are no unrecorded financial instruments.

NOTE 11 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation.

Schedule 1

Schedule of Salaries and Benefits

For the year ended December 31, 2007

PER DIEM PAYMENTS OF COUNCIL MEMBERS

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

	2007 [b]		2006	
	#		#	
Councils [a]				
Chairs	9	$ 62,419	9	$ 42,311
Members	30	101,429	30	61,455
Total	39	$163,848	39	$ 103,766

a) This includes the Alberta Insurance Council, the Life Insurance , 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 Minister of Finance Pursuant to the Government Organization Act.

SALARIES AND BENEFITS

	FTE's	Salary[c]	Benefits[d]	2007 Total	FTE's	2006 Total
	#				#	
Chief Executive Officer	1	$ 180,013	$ 34,938	$ 214,951	1	$ 181,617
Chief Operating Officer	1	160,099	39,960	200,059	1	174,383
Other staff [e]	19	1,263,494	239,222	1,502,716	19	1,343,457
Total	21	$1,603,606	$ 314,120	$1,917,726	21	$1,699,457

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 $34,011 (2006: $21,947).

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 $67,429 (2006: $69,029).

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Financial Statements

December 31, 2007

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, 2007 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, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
February 29, 2008

Balance Sheet

As at December 31, 2007

	($ thousands)	
	2007	2006
Assets		
Cash	$ 49	$ 68
Accounts receivable	13	6
Prepaid expenses	219	138
Due from pension pans	2,846	2,276
Property and equipment (Note 4)	3,433	4,612
	$ 6,560	$ 7,100
Liabilities and Shareholder's Equity		
Liabilities		
Accounts Payable and accrued liabilities	1,872	1,176
Accrued salaries and benefits	977	941
Accrued vacation pay	278	354
Deferred lease inducement	-	17
Deferred capital contributions (Note3)	3,433	4,612
	6,560	7,100
Shareholder's equity		
Share capital (Note 5)	-	-
	$ 6,560	$ 7,100

The accompanying notes are part of these financial statements

Approved by the Board:

Jack H. McMahon
Chair, APA Board of Directors

R. C. (Rick) Milner
Audit Committee Chair

Statement of Income

For the year ended December 31, 2007

	($ thousands)		
	2007		2008
	Budget	Actual	Actual
	(Note 15)		
Revenues (Note 6)	$ 27,636	$ 25,290	$ 24,326
Operating expense			
Staff and related expense	$ 17,831	$ 16,056	$ 15,649
Other operating expense (Note 7)	2,925	3,234	2,682
Amortization	3,032	2,746	2,865
Materials and supplies	2,435	2,148	2,113
Total before plan specfic	26,223	24,184	23,309
Plan Specific (Note 8)	1,413	1,106	1,017
Total operating expense	27,636	25,290	24,326
Net income	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2007

	($ thousands)	
	2007	**2006**
Operating activities		
Net income	$ -	$ -
Items not affecting cash:		
Amortization	2,746	2,865
Capital contributions recognized (Note 3)	(2,746)	(2,865)
	-	-
Changes in non-cash working capital (Note 9)	(2)	456
	(2)	456
Investing activities		
Acquisition of property and equipment	(1,567)	(521)
Financing activities		
Decrease in deferred lease inducement	(17)	(18)
Decrease in capital lease obligation	-	(440)
Capital contributions received	1,567	521
	1,550	63
Decrease in cash for the year	(19)	(2)
Cash, beginning of year	68	70
Cash, end of year	$ 49	$ 68

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

Notes to the Financial Statements

December 31, 2007

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 (SFPP)
- 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, 2008. These services include the collection of contributions, payment of benefits and refunds, 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

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

NOTE 3 (continued)

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

($ thousands)

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
APEX business system	$ 7,383	$ 7,012	$ 371	$ 1,643
Computer equipment	2,923	2,305	618	336
Computer software	5,438	3,779	1,659	1,406
Leasehold limprovements	1,596	1,077	519	838
Furniture and equipment	1,106	840	266	389
Telephone system	43	43	-	-
	$ 18,489	$ 15,056	$ 3,433	$ 4,612

NOTE 5 SHARE CAPITAL

	2007	2006
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

NOTE 6 REVENUE

	($ thousands) 2007	2006
LAPP	$ 15,386	$ 14,470
PSPP	7,027	6,875
MEPP	1,212	1,207
SFPP	934	1,009
PSM(CM)PP	249	260
MSRP	238	241
PJMC(R)PP	83	96
PJMC(U)PP	77	75
MLAPP	56	63
	25,262	24,296
Interest and other miscellaneous cost recoveries	28	30
Revenue	$ 25,290	$ 24,326

A full description of pension plan names is in Note 2.

NOTE 7 OTHER OPERATING EXPENSE

	($ thousands) 2007	2006
Contract services	$ 1,851	$ 1,453
Data processing and maintenance	1,117	981
Miscellaneous	266	248
	$ 3,234	$ 2,682

NOTE 8 PLAN SPECIFIC

The Corporation makes certain payments on behalf of the pension plan boards. These expenses, which are incurred directly by the pension plan boards, and which the Corporation does not control, are as follows:

($ thousands)

	2007					2006
	Contract Services	Salaries and Benefits	Materials and Supplies	Board Remuneration	Total	Total
PSPP	$ 139	$ 285	$ 70	$ -	$ 494	$ 515
MEPP	181	-	82	31	294	206
SFPP	202	-	65	23	290	219
PSM(CM)PP	13	-	-	-	13	24
PJMC(R)PP	3	-	3	-	6	18
MSRP	4	-	-	-	4	25
MLAPP	3	-	-	-	3	10
PJMC(U)PP	2	-	-	-	2	-
Total	$ 547	$ 285	$ 220	$ 54	$ 1,106	$ 1,017

A full description of pension plan names is in Note 2.

NOTE 9 CHANGES IN NON-CASH WORKING CAPITAL

($ thousands)

	2007	2006
(Increase) / decrease in accounts receivable	$ (7)	$ 2
(Increase) / decrease in prepaid expenses	(81)	31
(Increase) / decrease in due from pension plans	(570)	404
Increase in accounts payable and accrued liabilities	696	145
Increase / (decrease) in accrued salaries and benefits	36	(74)
Decrease in accrued vacation pay	(76)	(52)
	$ (2)	$ 456

NOTE 10 FINANCIAL INSTRUMENTS

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

NOTE 11 RELATED PARTY TRANSACTIONS

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

		($ thousands)	
		2007	**2006**
Service Alberta	Data processing and postage	$ 875	$ 717
Alberta Finance	Accounting, insurance and administrative	31	39
Alberta Infrastructure and Transportation	Parking rental	10	10
		$ 916	$ 766

The Corporation also provided services to the Public Sector Pension Plans and Supplementary Retirement Pension Plans as disclosed in Notes 6 and 8.

NOTE 12 SALARIES AND BENEFITS DISCLOSURE

($ thousands)

	2007				2006
	Base Salary (a)	Other Cash Benefits (b)	Other Non -cash Benefits (c)	Total	Total
Board Chair (d)	$ -	$ 23	$ 1	$ 24	$ 33
Board Members (d)	-	82	5	87	66
President and Chief Executive Officer (e)	176	38	61	275	220
Corporate Officers:					
Vice President, External Relations (f)	106	2	47	155	-
Vice President, Finance and Compliance (g)	54	102	17	173	198
Vice President, Human Resources (h)	138	4	32	174	13
Vice President, Information and Technology (i)	63	114	20	197	172
Vice President, Pension Services (j)	149	19	41	209	192
Vice President, Strategic Planning (k)	152	19	38	209	228

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, severance payments, vacation payouts and honoraria where applicable.

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, Workers' Compensation Board premiums, professional memberships and tuition fees where applicable.

d) Remuneration paid for the services of the Chair and five board members is classified as contract services and is paid based on rates approved by the Lieutenant Governor in Council in accordance with the Unanimous Shareholder Agreement and confirmed at the Annual General Meeting.

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 VP, Information Technology 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.

f) The position was created on March 1, 2007.

g) The current VP, Finance and Compliance has occupied the position since October 29, 2007. The predecessor occupied the position until March 26, 2007. Other cash benefits includes the severance payment of the predecessor. In 2006, the position was Chief Administrative Officer.

h) The position was created on December 1, 2006.

i) The current VP, Information Technology has occupied the position since November 15, 2007. The predecessor occupied the position until May 11, 2007. Other cash benefits includes the severance payment of the predecessor. The predecessor acted as CEO for three months during 2006. Acting pay for that period has been included as CEO salary. In 2006, the position was Chief Information Officer.

j) In 2006, the position was Chief Operating Officer.

k) In 2006, the position was Chief Strategist and Corporate Secretary.

NOTE 13 DEFINED BENEFITS PLANS

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 $1,256 for the year ended December 31, 2007 (2006: $1,175).

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 - $187,704). At December 31, 2006, the Supplementary Retirement Plan for Public Service Managers had a surplus of $3,698 (2005 - $10,018).

NOTE 14 COMMITMENTS

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

	($ thousands)		
	Facility Lease	**Multi-Year Contracts**	**Total Commitments**
2008	$ 853	$ 86	$ 939
2009	568	-	568
	$ 1,421	$ 86	$ 1,507

NOTE 15 2007 BUDGET

The Corporation's 2007 budget was approved by the Board of Directors on November 28, 2006.

NOTE 16 COMPARATIVE FIGURES

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

NOTE 17 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA SECURITIES COMMISSION

Financial Statements

March 31, 2008

AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

I have audited the balance sheet of Alberta Securities Commission (ASC) as at March 31, 2008 and the statement of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the 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 statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the ASC as at March 31, 2008 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Balance Sheet

As at March 31, 2008

	($ thousands)	
	2008	2007
ASSETS		
Current		
Cash (Note 4)	$ 4,395	$ 4,034
Funds held for others (Note 9)	148	135
Accounts receivable	78	32
Prepaid expenses	39	74
	4,660	4,275
Non-Current		
Restricted cash (Note 3)	238	576
Investments (Note 4)	34,671	32,146
Capital assets (Note 6)	2,938	3,275
Lease deposit and other	161	182
	38,008	36,179
Total Assets	$ 42,668	$ 40,454
LIABILITIES AND RETAINED EARNINGS		
Current		
Funds held for others (Note 9)	$ 148	$ 135
Accounts payable and accrued liabilities	2,074	2,710
Accrued vacation and benefits liabilities	346	468
Lease inducement (Note 7)	124	124
	2,692	3,437
Non-Current		
Lease inducement (Note 7)	247	370
Accrued benefit liability (Note 8)	2,888	2,464
Total Liabilities	5,827	6,271
Retained earnings (Note 3)	36,841	34,183
Total Liabilities and retained earnings	$ 42,668	$ 40,454

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

Approved by the Members

William S. Rice, Q.C.
Chair and Chief Executive Officer

Dennis A. Anderson, FCA
Member

Statement of Income and Retained Earnings

For the year ended March 31, 2008

	($ thousands)		
	2008 Budget (Note 12)	2008 Actual	2007 Actual
Revenue			
Fees (Note 10)	$ 21,632	$ 24,952	$ 23,223
Investment Income (Note 5)	1,685	2,147	2,238
Settlement payments and cost recoveries (Note 10)	-	705	7,790
Conference fees	-	36	26
Administrative penalties revenue (Note 3)	300	468	121
Total revenue	23,617	28,308	33,398
Expense			
Salaries and benefits	18,468	16,769	15,329
Administration	2,950	2,517	2,668
Professional services	2,325	2,356	2,359
Premises	1,923	2,105	1,771
Amortization	976	1,066	695
Investor education (Note 3)	665	837	466
Total expenses	27,307	25,650	23,288
Budget contingency	2,731		
Net income (loss)	$ (6,421)	2,658	10,110
Opening retained earnings		34,183	24,073
Closing retained earnings (Note 3)		$ 36,841	$ 34,183

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

Statement of Cash Flows

For the year ended March 31, 2008

	($ thousands)	
	2008	2007
Cash flows from operating activities		
Fees and other	$ 24,923	$ 23,312
Settlement payments and cost recoveries	705	7,790
Payments to and on behalf of employees	(16,310)	(14,521)
Payments to suppliers for goods and services	(8,345)	(7,047)
Investment income	2,147	2,238
Administrative penalties	446	59
Cash from operating activites	3,566	11,831
Cash flows from capital activities		
Proceeds on disposal of capital assets	4	3
Cash used to acquire capital assets (1)	(1,021)	(1,831)
Cash used in capital activities	(1,017)	(1,828)
Cash flows from investing activities		
Decrease (increase) in restricted cash	338	319
Cash used for investments	(2,526)	(8,830)
Cash used in investing activities	(2,188)	(8,511)
Increase in cash	361	1,492
Opening cash	4,034	2,542
Closing cash	$ 4,395	$ 4,034
Supplemental cash flow information		
(1) Additions to capital assets	$ (733)	$ (2,060)
Increases (decreases) in accounts payable and Accrued Liabilities for capital assets	(288)	229
	$ (1,021)	$ (1,831)

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

Notes to the Financial Statements

March 31, 2008
($ thousands)

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission ("ASC"), a 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 Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance and Enterprise.. 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 Management Corporation (AIMco) 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 and investment expense are recorded on the accrual basis. Investment income is accrued 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.

c) VALUATION OF INVESTMENTS

Fair values of investments managed and held by AIMco 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.

Note 2 (continued)

c) VALUATION OF INVESTMENTS (continued)

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 certain equity funds. (Note 4). The fair value of derivative contracts is determined at the reporting date.

d) 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.

e) 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

f) 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.

g) 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 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 (Canada)*. The expense included in these financial statements represents the current contributions made on behalf of the employees.

h) LEASE INDUCEMENT

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term.

i) ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include, accounts receivable, the useful lives of capital assets and the value of accrued employee benefit liabilities. Actual results could differ from those estimates.

Note 2 (continued)

i) ACCOUNTING ESTIMATES (continued)

Estimates of capital asset useful lives are outlined in note 6. Actual experience is consistent with these estimates.

Benefit liability estimates are primarily subject to actuarial assumptions summarized in note 8.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability tp pay may result in recovery amounts previously considered uncollectable. However, it is possible to estimate what, if any, subsequent recoveries may occur. Experience indicates these amounts are insignificant and amounted to $56 at March 31, 2008.

j) RESTRICTED CASH

The *Securities Act* (Alberta) 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 $238 ($576 in 2007). This amount is represented by restricted cash, as described in Note 2(j)

Changes in restricted cash include:

	($ thousands)	
	2008	**2007**
Administrative penalties	$ 3,218	$ 564
Less: uncollectible amounts	(2,776)	(480)
Net realizable value	442	84
Interest income and other	26	37
	468	121
Plus: Education seminar fees	31	26
Less: Eligible education expenses	(837)	(466)
Restricted cash (decrease)	$ (338)	$ (319)

NOTE 4 CASH AND INVESTMENTS

a) SUMMARY

	($ thousands)					
	2008			**2007**		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Cash						
Deposit in the CCITF	$ 4,395	$ 4,395		$ 4,034	$ 4,034	
Investments						
Deposit in the CCITF	$ 69	$ 69	0.2	$ 65	$ 65	0.2
Fixed-income securities	26,278	25,646	76.0	24,340	24,092	74.5
Equities	8,324	8,025	23.8	7,741	8,168	25.3
	$ 34,671	$ 33,740	100.0	$ 32,146	$ 32,325	100.0

Note 4 (continued)

a) Summary (continued)

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 CCITF 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, 2008, securities held by the CCITF have an average effective market yield of 4.81% per annum (2007: 4.36% per annum).

On January 1, 2008, AIMCo began operations. AIMCo is a provincial corporation responsible to the Minister of Finance. It provides the day to day investment services for the ASC.

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 $58,963 and a positive fair value of $4 (Notional amount of $92,045 and a negative fair value of $33 in F2007). The $4 net fair value ($33 negative fair value in F2007) consists of $178 of positive and $174 of negative derivative contract fair values ($104 positive and $137 negative in F2007).

Fixed income securities held at March 31, 2008 have an average effective market yield of 5% per annum (4.5% per annum in 2007), 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 including a small portion in United States 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. AIMCo manage risk through diversification within each asset class, and quality and duration constraints on fixed-income instruments.

NOTE 5 NET INVESTMENT INCOME

	($ thousands)	
	2008	2007
Net realized gain on investments including derivative income	$ 838	$ 744
Interest	1,200	1,390
Dividends	116	108
Other	(7)	(4)
	$ 2,147	$ 2,238

The ASC's investments earned 2.9 % for the year ended March 31, 2008 (7.4 % in 2007), based on market values.

NOTE 6 CAPITAL ASSETS

	($ thousands)				
	Furniture and equipment	Computer equipment and software	Leaseholds	2008 Total	2007 Total
Estimated Useful Life	10 years	3 years	Lease Duration		
Cost					
Beginning of year	$ 838	$ 2,701	$ 3,424	$ 6,963	$ 5,155
Additions	$ 110	$ 193	$ 430	$ 733	$ 2,060
Disposals	$ (1)	$ (232)		$ (233)	
	$ 947	$ 2,662	$ 3,854	$ 7,463	$ 7,215
Accumulated Amortization					
Beginning of year	$ 365	$ 1,746	$ 1,578	$ 3,689	$ 3,242
Amortization expense	$ 81	$ 459	$ 530	$ 1,070	$ 698
Disposals	$ (1)	$ (233)		$ (234)	
	$ 445	$ 1,972	$ 2,108	$ 4,525	$ 3,940
Net Book Value March 31, 2008	$ 502	$ 690	$ 1,746	$ 2,938	
Net Book Value March 31, 2007	$ 474	$ 955	$ 1,846	$ 2,801	$ 3,275

NOTE 7 LEASE INDUCEMENTS

	($ thousands)	
Lease Term	Current	Future
8 years, ending March 2011	$ 124	$ 247

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability includes:

	($ thousands)	
	2008	2007
Retirement Plan	$ 211	$ 204
Supplemental Pension Plan	2,744	2,327
Less: current portion	(67)	(67)
	$ 2,888	$ 2,464

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

	($ thousands)	
	2008	2007
Public Service Pension Plan	$ 428	$ 379
Registered Retirement Savings Plan	393	330
Retirement Plan	29	29
Supplemental Pension Plan	461	436
	$ 1,311	$ 1,174

Note 8 (continued)

a) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan (the "PSPP"). At December 31, 2007, the PSPP reported a deficiency of $(92,070) and in 2006 a surplus of $ 153,024.

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 ($23 in 2008, $22 in 2007) 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 ($117 effective January 1, 2008, and $111 effective January 1, 2007) imposed by the *Income Tax Act* on registered pension arrangements.

Pension benefits from the Plan are payable on or after attainment of age 55 and are equal to 1.75% of highest average pensionable earnings (average over five years) for each year of service with the Commission. Members of the Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Plan is not pre-funded and the benefits will be paid as they come due from the assets of the ASC.

Actuarial valuations of the Plan are undertaken every three years. At April 1, 2006, an independent actuary performed a Plan valuation. The next valuation is scheduled for April 1, 2009. The results of the actuarial valuation and management's cost estimates as they apply to the Plan are summarized below:

	($ thousands)	
Balance sheet at March 31	2008	2007
Accrued benefit and unfunded obligation	$ 2,869	$ 2,511
Unamortized transitional obligation	(85)	(120)
Unamortized actuarial loss	(40)	(64)
Accrued benefit liability	$ 2,744	$ 2,327
Accrued benefit obligation		
Accrued benefit obligation at beginning of the year	$ 2,511	$ 2,152
Service cost	283	268
Interest cost	136	126
Net actuarial gain plus benefits paid of $44 ($35)	(61)	(35)
Accrued benefit obligation at end of the year	$ 2,869	$ 2,511

Note 8 (continued)

The pension expense for the Plan is as follows:

Pension expense	($ thousands) 2008	2007
Service cost	$ 283	$ 268
Interest cost	136	126
Amortization of transitional obligation	26	26
Recognized actuarial losses during year	16	16
Pension Expense	$ 461	$ 436

e) 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 on long-term corporate bonds and applies to both the accrued benefit obligation and benefit costs. Other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on best estimate of the future experience of the plans.

	2008	2007
Discount rate, year end obligation	5.40%	5.40%
Discount rate, net benefit cost prior year	5.80%	5.80%
Rate of inflation	2.50%	2.50%
Salary increases	4.00%	4.00%
Remaining service life	6 years	6 years

NOTE 9 FUNDS HELD FOR OTHERS

The ASC holds, in a separate bank account, $148 ($135 in 2007) in cash for participants in the Market Integrity Computer Analysis ("MICA") system upgrade project. The ASC recorded a 2008 project expense of $28 ($2 in 2007). Funds are disbursed as payments are made for approved expenditures. Current funds are considered sufficient to complete the project in 2009.

NOTE 10 FEES, SETTLEMENT RECEIPTS AND COST RECOVERIES

	2008	2007
Distribution of securities	$ 11,598	$ 11,345
Registrations	8,512	7,522
Annual financial statements	4,284	4,025
Orders (Applications)	558	331
Total fees	$ 24,952	$ 23,223
Settlement payments and cost recoveries	$ 2,058	$ 7,981
Less: uncollectible amounts net of recoveries	(1,353)	(191)
Net realizable value	$ 705	$ 7,790

NOTE 11 COMMITMENTS AND CONTINGENCIES

Details of commitments to organizations outside the ASC and contingencies from 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 2010, amounted to $7,191 ($8,296 in 2007). These commitments become expenses of the ASC when the terms of the contracts are met.

2008-09	$	2,200
2009-10		2,425
2010-11		2,566
Thereafter		-
Total	$	7,191

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 harmonization 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 $23,927 at March 31, 2008 ($16,175 in 2007). 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 two hearing decision appeals. Management considers the likelihood of appeal success and possible liability under these appeals 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 17, 2007 and includes a contingency expense provision of $2,731. A 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 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 $33 ($24 in 2007) in administration expense.

NOTE 14 COMPARATIVES

Certain comparative figures have been reclassified to conform to their 2008 presentation.

SCHEDULE OF SALARIES AND BENEFITS

Schedule A

($ thousands)

	2008				2007
	Base Salary (a)	Cash Benefits (b)	Non-cash Benefits (c)	Total	Total
Chair, Securities Commission (d)	$ 465	$ 78	$ 117	$ 660	$ 628
Executive Director	285	46	91	422	368
Vice Chair, Securities Commission (d)	245	45	86	376	368
Vice Chair, Securities Commission (d)	245	45	60	350	722
Members (Independent) (e)	519	-	-	519	782
	1,759	214	354	2,327	2,868

a) Base salary includes regular base pay and Member compensation.

b) Cash benefits include bonuses, payments in lieu of vacation and Chair and Executive Director's automobile allowances.

c) 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 statement and summarized in the accompanying narrative.

d) The Chair and Vice Chairs are full time Commission Members.

e) The ten Independent Members compensation includes fees paid for governance responsibilities of $346,000 ($406,000 in 2007) and hearing and application panel participation of $173,000 ($376,000 in 2007). Independent Member fees include a $10,000 annual retainer, $2,500 for Committee membership, $5,000 for Committee chairing and $5,000 for the Lead Independent Member position. Meeting attendance fees include $1,000 per day for an ASC meeting and $750 for a Committee meeting. Hearing fees are payable as to $1,000 per hearing day and $125 per hour of related preparation, review and decision writing.

SCHEDULE OF SALARY AND BENEFITS

Schedule A (continued)

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. Supplemental Pension Plan costs as detailed below for the four most highly paid executives of the ASC, 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.

	2008			2007
	Current Service Costs	Prior Service and Other Costs	Total	Total
Chair, Securities Commission	$ 87	$ 8	$ 95	$ 90
Executive Director	36	31	67	64
Vice Chair, Securities Commission	32	31	63	59
Vice Chair, Securities Commission	30	11	41	39

The accrued obligation for each of the four most highly paid executives under the Supplemental Pension Plan is outlined in the following table

	Accrued obligation 1-Apr-07	Changes in accrued obligation	Accrued obligation 31-Mar-08
Chair, Securities Commission	$ 145	$ 95	$ 240
Executive Director	398	67	465
Vice Chair, Securities Commission	363	63	426
Vice Chair, Securities Commission	124	41	165

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December31, 2007

AUDITOR'S REPORT

To the Shareholders of Alberta Local Authorities Pension Plan Corporation

I have audited the balance sheet of the Alberta Local Authorities Pension Plan Corporation as at December 31, 2007 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, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 28, 2008

Balance Sheet

As at December 31, 2007

	($ thousands)	
	2007	2006
Assets		
Cash	$ 23	$ 69
Accounts receivable	4	22
Due from LAPP (Note 5)	67	-
	$ 94	$ 91
Liabilities and Sharholders Equity		
Liabilities		
Accrued liabilities	$ 94	$ 51
Deferred revenue	-	40
	94	91
Shareholder's equity		
Share capital (Note 4)	-	-
	$ 94	$ 91

The accompanying notes are part of these financial statements.

Approved by the Board:

Grant Howell
Chair of the Board

Richard Martin
Audit Committee Chair

Statement of Income

For the year ended December 31, 2007

	($ thousands)		
	Budget 2007 (Note 10)	Actual 2007	Actual 2006
Revenue			
Service revenue (Note 5)	$ 2,445	$ 2,107	$ 2,062
Miscellaneous revenue	-	7	6
Total revenue	2,445	2,114	2,068
Operating costs			
Salaries and benefits	1,041	888	877
Professional fees	365	315	308
Communication expenses	381	230	282
Board costs	280	286	260
Actuarial services	208	241	192
General and administrative	170	154	149
Total operating costs	2,445	2,114	2,068
Net income for the year	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Operating activities		
Net income	-	-
Changes in non-cash working capital		
Decrease in accounts receivable	18	(22)
Increase in accrued liabilities	43	51
Decrease in deferred revenue	(40)	40
Due from LAPP	(67)	-
Increase in cash for the year	(46)	69
Cash at beginning of year	69	-
Cash at end of year	$ 23	$ 69

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2007

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

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

	2007	2006
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

NOTE 5 SERVICE REVENUE / DUE FROM LAPP

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.

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)
2008	118
2009	103
	$ 221

NOTE 8 SALARIES AND BENEFITS DISCLOSURE

($ thousands)

	2007				2006
	Base Salary [a]	Other cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Corporate Board Chair [d]	$ -	$ 25	$ -	$ 25	$ 22
Corporate Board Members (excluding Chair)[d]	-	113	-	113	103
President & Chief Executive Officer	200	26	39	265	225
Vice-Presidents:					
Investments[e]	43	31	8	82	202
Policy and Legal	150	16	30	196	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.

e) Position was discontinued in 2007.

NOTE 9 DEFINED BENEFIT PLAN

($ 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 $87 for the year ended December 31, 2007.

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of $84,341 (2006: $6,765) and the Public Service Pension Plan reported a deficiency of $92,070 (2006: surplus of $153,024). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers reported a surplus of $1,510 (2006: $3,698).

NOTE 10 APPROVAL OF 2007 BUDGET

The 2007 budget was approved by the Corporation's Board of Directors on October 20, 2006.

NOTE 11 FINANCIAL STATEMENT APPROVAL

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

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the 3 month period ended March 31, 2008

AUDITOR'S REPORT

To the Shareholder of Alberta Investment Management Corporation

I have audited the balance sheet of the Alberta Investment Management Corporation as at March 31, 2008 and the statements of income and cash flows for the 3 month period 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 March 31, 2008 and the results of its operations and its cash flows for the 3 month period then ended in accordance with Canadian generally accepted accounting principles.

[original signed by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
July 4, 2008

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

Balance Sheet

As at March 31, 2008

	($ thousands) 2008
Assets	
Current Assets	
Cash (Note 5)	$ 12,898
Accounts receivable	3,989
Prepaid expenses	189
	17,076
Capital assets (Note 6)	3,937
	$ 21,013
Liabilities and Shareholders Equity	
Current Liabilities	
Accounts payable and accrued liabilities	$ 2,302
Accrued vacation and benefits	1,659
Advance from the Province of Alberta (Note 7)	13,249
	17,210
Deferred lease inducement	156
	17,366
Shareholder's Equity (Note 8)	
Contributed surplus	3,647
	3,647
	$ 21,013

The accompanying notes are part of these financial statements

Approved by the Board:

A. Charles Baillie
Board Chair

John Watson
Audit Committee Chair

Statement of Income

For the 3 months ended March 31, 2008

	($ thousands)	
	2008	
	Budget (Note 18)	Actual
Revenue		
External investment management fees (Note 9)	$ -	$ 33,930
Service revenue	8,589	6,997
Interest income	-	138
	8,589	41,065
Expenses		
External investment management fees (Note 9)	-	33,930
Salaries, wages and benefits	5,833	4,901
Contract and professional services	1,615	759
Amortization	-	460
Administration costs	432	321
Board costs	-	208
Travel	195	174
Rent and lease costs	3	168
Interest on advance	-	116
Computer system costs	511	28
	8,589	41,065
Net income	$ -	$ -

The accompanying notes are part of these financial statements

Statement of Cash Flows

For the 3 months ended March 31, 2008

	($thousands)
	2008
Operating activities	
Net income	$ -
Items not affecting cash	
Amortization	460
	460
Changes in non-cash working capital (Note 10)	(217)
	243
Investing activities	
Acquisition of capital assets	(750)
Financing activities	
Advance from the Province of Alberta	15,000
Repayment on advance from the Province of Alberta	(1,751)
Increase in deferred lease inducement	156
	13,405
Increase in cash for the period	12,898
Cash at beginning of period	-
Cash at end of period	$ 12,898

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2008

NOTE 1 AUTHORITY

Alberta Investment Management Corporation (the Corporation) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from income and other taxes.

NOTE 2 NATURE OF OPERATIONS

The purpose of the Corporation is to provide investment management services in accordance with the *Alberta Investment Management Corporations Act* primarily to the Province of Alberta and certain public sector pension plans. The Corporation forms part of the Ministry of Finance for which the Minister of Finance is responsible.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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) 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 amounts of revenues and expenses during the period. Actual results could differ from these estimates. Significant estimates include external investment management fees.

b) REVENUE RECOGNITION

All revenues are reported on the accrual basis of accounting.

Revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments. The revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

The Corporation charges each government fund, pension plan and pooled fund with its respective share of the Corporation's operating costs. The charges are based on the total actual expenses incurred and are allocated based on assets under management and transaction volume.

Under its authority, the Corporation has the opportunity to establish and maintain one or more Reserve Funds with the ability to recover in excess of direct costs.

c) CAPITAL ASSETS

Capital assets are recorded at cost. The threshold for capitalizing new system development is $100,000; and the threshold for all other capital assets is $5,000. Amortization is calculated on a straight line basis over the following periods:

Computer systems hardware and software	5 years
Furniture and equipment	10 years
Leasehold improvements	Term of the lease

NOTE 4 OPENING BALANCES

The Corporation commenced operations on January 1, 2008 and provides investment management services in accordance with the *Alberta Investment Management Corporation Act.* The following table outlines certain assets and liabilities that were transferred to the Corporation from the Department of Finance on that date:

	($ thousands)
	2008
Assets	
Cash	$ 15,000
Capital assets	3,647
	$ 18,647
Liabilities and Shareholder's Equity	
Liabilities	
Advance from the Province of Alberta	$ 13,249
Vacation liability	1,751
	15,000
Contributed Surplus	3,647
	$ 18,647

NOTE 5 CASH

	($thousands)
	2008
Deposit in Consolidated Cash Investment Trust Fund [(a)]	$ 12,805
Cash in U.S. bank account	93
	$ 12,898

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, 2008, securities held by the Fund have an average effective yield of 4.81% per annum. Eighty percent of the securities in the Fund mature within one year.

NOTE 6 CAPITAL ASSETS

	($thousands) 2008 Computer Hardware and Software
Historical Cost	
Beginning of period	$ -
Transfer from the Province of Alberta [(a)]	3,647
Additions	750
	4,397
Accumulated Amortization	
Beginning of period	$ -
Amortization expense	460
	460
Net book value as at March 31, 2008	$ 3,937

a) Net book value transferred from the Province of Alberta as at January 1, 2008

NOTE 7 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 542/2007 and in accordance with a loan advance agreement, the Corporation received an advance from the Province of Alberta on January 1, 2008 to fund operating and capital cost requirements calculated as:

Net initial advance	$ 15,000
	15,000
Less: Transfer of vacation liability	(1,751)
Operating funds	$ 13,249

The advance is a revolving demand credit facility up to a maximum of $30 million. The advance is repayable within 6 months of demand by the Province and is interest bearing at a rate equal to the Province's one month borrowing rate (2.23% as at March 31, 2008).

NOTE 8 SHAREHOLDER'S EQUITY

a) SHARE CAPITAL

	2008
Issued and Authorized	
Province of Alberta - one share	$ -

b) CONTRIBUTED SURPLUS

The Contributed Surplus of $3,647 represents equity received by the Department of Finance in exchange for the transfer of the net book value of the capital assets.

NOTE 9 EXTERNAL INVESTMENT MANAGEMENT FEES

Included in revenue and expenses are external investment management fees of $33,930 for investment, custodial, legal, audit and other services provided by external managers on behalf of the Corporation's clients. These fees are netted against the client's investment income. External investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Fees charged by external managers include regular management fees and performance/incentive based fees to the extent recognized.

NOTE 10 CHANGES IN NON-CASH WORKING CAPITAL

	($thousands)
	2008
Increase in accounts receivable	$ (3,989)
Increase in prepaid expenses	(189)
Increase in accounts payable and accrued liabilities	2,302
Increase in accrued vacation and benefits	1,659
	$ (217)

NOTE 11 ASSETS UNDER ADMINISTRATION

The Corporation administers investment assets primarily on behalf of the Minister of Finance and certain public sector pension plans. Investment services include portfolio management, research, analysis and reporting, custody and valuation of securities, performance measurement, maintenance of investment systems and internal audit.

At March 31, 2008 assets under its administration totaled approximately $75.7 billion, at market value. These assets were administered on behalf of the following clients of the Corporation:

	($thousands)
	2008
Pension plans	$ 27,429,537
Ministry of Finance	
General revenue and entity investment funds	22,167,259
Endowment funds (including the Alberta Heritage Savings Trust Fund)	20,228,488
Insurance related funds	3,387,499
Other government ministry investment funds	2,499,357
	$ 75,712,140

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

At March 31, 2008, investments administered by the Corporation were held in the following asset classes:

	($thousands)
	2008
Deposits and fixed income securities	$ 42,945,202
U.S. and Non-North American equities	15,032,346
Canadian equities	8,222,969
Real estate	5,036,148
Private equity and infrastructure	2,551,818
Hedge funds	1,923,657
	$ 75,712,140

NOTE 12 FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash, accounts receivable, accounts payable and accrued liabilities, accrued vacation and benefits, advance from the Province of Alberta and other accrued liabilities. Due to their short term nature, the carrying value of these instruments approximates their fair value.

NOTE 13 RELATED PARTY TRANSACTIONS

Related parties are those entities consolidated in the Province of Alberta's financial statements. The Corporation had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

	($thousands)	
	2008	
	Entities in the Ministry of Finance	**Other Government Entities**
Revenues		
Service Revenue	$ 1,256	$ 27
Expenses		
Interest on Advance from Province of Alberta	$ 116	$ -
Other	3	-
	$ 119	$ -
Assets		
Due From	$ 638	$ 13
Liabilities		
Due to	$ 259	$ -
Advance from Province of Alberta	13,249	-
	$ 13,508	$ -

The Corporation also had transactions with related parties for which no consideration was exchanged. The transactions consist of accommodation costs, human resources services, financial services, information management, technology and facility support.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE

The table below presents total compensation of the directors and senior management of Alberta Investment Management Corporation in accordance with Treasury Board directive 03/2007:

	($thousands)			
	2008			
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total
Chairman of Board (4)	$ 45	$ -	$ -	$ 45
				-
Board Members (4) (5)	147	-	-	147
				-
Executives	-	-	-	-
Chief Investment Officer (6)	82	89	22	193
Chief Operating Officer	42	21	13	76
Director, Risk Management and Strategic				-
Planning & Corporate Secretary	53	40	20	113
Chief Compliance Officer	41	8	12	61
Director, Fixed Income Investments	66	21	18	105
Head, Infrastructure and Timberlands	60	65	17	142
Chief Economist	46	26	13	85

1) Base salary includes pensionable base pay.

2) Other cash benefits include bonuses, vacation payouts, and lump sum payments.

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

4) Base salary includes $19 for the Chairman of the Board and $51 for the Board Members related to remuneration incurred prior to January 1, 2008.

5) The Board consists of ten independent members including the Chairman, whose salary is disclosed separately. In addition, the Deputy Minister of Finance sits on the Board but receives no compensation from the Corporation.

6) The Chief Investment Officer also served in the role of Acting Chief Executive Officer for the period January 1, 2008 – March 31, 2008 while recruitment was underway for the Chief Executive Officer position.

NOTE 15 DEFINED BENEFIT PLANS

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 $529 for the year ended March 31, 2008.

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of $84,341 (2006: $6,765) and the Public Service Pension Plan reported a deficiency of $92,070 (2006: surplus of $153,024). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers had a surplus of $1,510 (2006: $3,698).

The Corporation also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2008, the Bargaining Unit Plan reported a deficiency of $6,319 (2007: surplus of $153) and the Management, Opted Out and Excluded Plan reported a surplus of $7,873 (2007: surplus of $10,148). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 16 CONTRACTUAL OBLIGATIONS

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

	Service Contracts	Lease Contracts	Total
2009	$ 4,047	$ 658	$ 4,705
2010	60	658	718
2011	60	658	718
2012	-	658	658
2013	-	494	494
	$ 4,167	$ 3,126	$ 7,293

NOTE 17 LETTERS OF CREDIT

Pursuant to Order in Council 23/2008 the Province of Alberta has provided the Corporation with the facility to access up to a maximum of $200 million for letters of credit for security purposes. As at March 31, 2008 the balance outstanding against the facility is zero.

NOTE 18 2008 BUDGET

The Corporation's 2008 budget was approved by the Treasury Board on April 19, 2007. The decision to disclose the external investment management fees of $33,930 on the Statement of Income was made subsequent to the budget being approved.

Commercial Enterprises

ATB FINANCIAL

Consolidated Financial Statements

For the year ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Consolidated Balance Sheet of Alberta Treasury Branches as at March 31, 2008, and the Consolidated Statements of Income, Changes in Equity and Other Comprehensive Income, and 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, 2008, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 9, 2008

Consolidated Balance Sheet

For the year ended March 31, 2008

	($ thousands)	
	2008	2007
Assets		
Cash resources (Note 4)		
Cash	$ 91,567	$ 78,117
Interest-bearing deposits with financial institutions	1,928,230	1,017,497
	2,019,797	1,095,614
Securities (Note 5)	1,253,518	1,684,821
Loans (Notes 6 and 7)		
Residential mortgage	7,719,066	6,965,985
Business	7,347,110	6,712,420
Personal	4,089,104	3,101,429
Credit card	450,007	368,329
Allowance for credit losses	(161,770)	(153,834)
	19,443,517	16,994,329
Other		
Premises and equipment (Note 8)	208,875	177,561
Derivative financial instruments (Note 14)	109,250	28,200
Other assets (Note 9)	308,196	314,193
	626,321	519,954
	$ 23,343,153	$ 20,294,718
Liabilities and Equity		
Deposits (Note 10)		
Personal	$ 9,757,840	$ 9,156,823
Business and other	8,035,590	7,430,036
Wholesale	3,382,286	1,665,979
	21,175,716	18,252,838
Other Liabilities		
Derivative financial instruments (Note 14)	82,390	8,629
Other Liabilities (Note 11)	343,597	337,626
	425,987	346,255
Subordinated Debentures (Note 12)	72,998	72,242
Equity		
Retained earnings	1,643,341	1,623,383
Accumulated other comprehensive income	25,111	-
	1,668,452	1,623,383
	$ 23,343,153	$ 20,294,718

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

Approved by the Board:

Bob Splane
Chairman of the Board

Brian McCook
Chairman of the Audit Committee

Consolidated Statement of Income

For the year ended March 31, 2008

	($ thousands)		
	2008	2007	2006
Interest Income			
Loans	$ 1,155,845	$ 960,074	$ 748,741
Deposits with financial institutions	74,836	46,615	30,298
Securities	71,883	71,593	35,630
	1,302,564	1,078,282	814,669
Interest Expense			
Deposits	639,981	503,143	348,994
Subordinated debentures	3,173	3,334	3,424
	643,154	506,477	352,418
Net Interest Income	659,410	571,805	462,251
Other income			
Service charges	69,891	68,241	64,275
Credit fees	10,627	29,738	30,068
Investor Services	38,427	28,526	17,994
Card fees	35,764	27,919	23,649
Foreign exchange	11,763	8,625	7,451
Insurance	11,525	10,789	10,150
Sundry	5,465	4,047	996
Gains on derivative financial instruments, net	2,533	1,776	1,038
	185,995	179,661	155,621
Operating Revenue before the undernoted	845,405	751,466	617,872
Provision for loss on asset-backed commercial paper (Note 5)	(253,133)	-	-
Total Operating Revenue	592,272	751,466	617,872
Provision for (Recovery of) Credit Losses (Note 7)	12,906	(5,211)	688
Non-interest Expenses			
Human resources (Notes 13 and 16)	297,404	258,192	221,270
Data processing	67,212	60,176	53,170
Premises and occupancy, including amortization	47,831	43,078	37,136
Marketing and supplies	28,496	19,432	17,948
Professional and consulting costs	29,027	26,816	22,350
Equipment and software, including amortization	22,171	20,275	19,411
Deposit guarantee fee	20,210	14,156	15,236
Communication	18,532	14,793	14,117
ATB agencies	9,339	8,255	7,119
Other	9,159	17,116	10,706
	549,381	482,289	418,463
Net Income	$ 29,985	$ 274,388	$ 198,721

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

Consolidated Statement of Changes in Equity and Other Comprehensive Income

For the year ended March 31, 2008

	($ thousands)		
	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Equity as at March 31, 2007	$1,623,383	$ -	$ 1,623,383
Transition adjustment on adoption of new financial instruments accounting standards effective April 1, 2007 *(Note 3)*	(10,027)	3,461	(6,566)
Adjusted balance as at April 1, 2007	1,613,356	3,461	1,616,817
Net income for the year ended March 31, 2008	29,985	-	29,985
Other comprehensive income (loss) for the year ended March 31, 2008			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(543)	(543)
Reclassification to earnings in respect of available-for-sale securities and deposits with financial institutions	-	(3)	(3)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	16,543	16,543
Reclassification to earnings of gains and (losses) on cash flow hedges	-	5,653	5,653
	-	21,650	21,650
Comprehensive income for the year ended March 31, 2008			51,635
Equity as at March 31, 2008	$1,643,341	$ 25,111	$ 1,668,452
Equity as at March 31, 2006	$1,348,995	$ -	$ 1,348,995
Net income for the year ended March 31, 2007	274,388		274,388
Equity as at March 31, 2007	$1,623,383	$ -	$ 1,623,383
Equity as at March 31, 2005	$1,150,274	$ -	$ 1,150,274
Net income for the year ended March 31, 2006	198,721		198,721
Equity as at March 31, 2006	$1,348,995	$ -	$ 1,348,995

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

Consolidated Statement of Cash Flows

For the year ended March 31, 2008

	($ thousands)		
	2008	2007	2006
Cash Flows from Operating Activites			
Net Income	$ 29,985	$ 274,388	$ 198,721
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	12,906	(5,211)	688
Amortization	32,666	29,218	27,886
Net changes in accrued interest receivable and payable	(26,783)	2,217	(2,620)
Net changes in derivative Financial Instruments	17,653	6,595	3,712
Provision for loss on ABCP	253,133	-	-
Other items, net	40,913	(130,810)	46,775
Net cash provided by operating activities	360,473	176,397	275,162
Cash Flows from Financing Activites			
Net changes in deposits	2,939,760	2,382,530	2,030,276
Issuance of subordinated debentures	15,990	13,401	15,785
Repayment of subordinated debentures	(15,234)	(12,738)	(9,925)
Net cash provided by financing activities	2,940,516	2,383,193	2,036,136
Cash Flows from Investing Activites			
Net changes in interest-bearing deposits with financial institutions	(910,659)	(40,826)	(49,427)
Purchase of investment securities	(12,628,696)	(19,156,941)	(11,008,614)
Proceeds from Investment securities	12,806,956	18,853,564	10,559,681
Net changes in loans	(2,491,160)	(2,142,424)	(1,709,465)
Net purchases of premises and equipment	(63,980)	(72,300)	(52,298)
Net cassh used in investing activites	(3,287,539)	(2,558,927)	(2,260,123)
Net Increse in Cash and Cash Equivalents	13,450	663	51,175
Cash and cash equivalents at beginning of year	78,117	77,454	26,279
Cash and Cash Equivalents at End of Year, Represented by Cash	$ 91,567	$ 78,117	$ 77,454
Supplemtary cash flow information:			
Amount of interest paid during the year	$ 638,758	$ 483,563	$ 355,715

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

Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2008
($ 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 the 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 and securities.

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 Corporations 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.

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

Effective April 1, 2007, ATB adopted new or revised accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"): *CICA Handbook* Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. The adoption of new accounting policies to comply with these standards, often collectively referred to as "the financial instruments standards" or "the new standards," resulted in certain changes to ATB's accounting for financial instruments and hedges. As these new policies have been adopted prospectively, prior period results have not been restated and certain transition adjustments have been recorded in opening retained earnings and opening accumulated other comprehensive income as of April 1, 2007 (the transitional date).

Classification of and Accounting for Financial Instruments

Prior to adopting the new standards, ATB accounted for virtually all of its financial assets (principally cash resources, securities, and loans) and financial liabilities (principally deposits and subordinated debentures) on an accrual basis and measured them at cost or amortized cost, as applicable.

Section 3855 establishes a new framework for the recognition and measurement of financial assets, financial liabilities, and non-financial derivatives. All existing financial instruments have been classified as of April 1, 2007, according to this new framework, either based on the type of instrument or ATB's intention regarding the instrument, as described below. Any new financial instruments entered into after that date are classified on inception. This classification determines how financial instruments are accounted for under the new standards.

Held for Trading

As of April 1, 2007, ATB has classified certain interest-bearing deposits with financial institutions and securities denominated in foreign currencies as "held for trading" ("HFT"), and has maintained that classification through March 31, 2008. As at March 31, 2008, ATB held $103,380 HFT assets (April 1, 2007: $92,860).

Financial assets and liabilities classified as HFT are measured on the Consolidated Balance Sheet at fair value, with changes in fair value (unrealized gains or losses) recorded in net income in the Consolidated Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as other income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

Financial Assets and Liabilities Designated as Held for Trading under the Fair Value Option

ATB may designate any financial instrument as HFT 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 HFT.

ATB has not designated any financial instruments as HFT under the fair value option as of March 31, 2008 (or as of April 1, 2007).

Available for Sale

As of April 1, 2007, ATB has classified interest-bearing deposits with financial institutions and most securities denominated in Canadian dollars as "available for sale" ("AFS"), and has maintained that classification through March 31, 2008.

Financial assets classified as AFS are measured on the Consolidated Balance Sheet at fair value, with changes in fair value (unrealized gains or losses), including any foreign exchange component, being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not ordinarily recognized in income but are recognized in accumulated other comprehensive income ("AOCI") until sale, when the cumulative gain or loss on disposal is transferred to the Consolidated Statement of Income as other income. In the event of an other-than-temporary impairment in fair value, the cumulative change in fair value of the impaired asset is recognized in net income in the period of impairment. Any interest earned prior to disposal continues to be recognized on an accrual basis as interest income.

Held to Maturity

ATB may classify non-derivative financial assets as "held to maturity" ("HTM") if the assets have fixed or determinable payments, a fixed term to maturity, and if ATB has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective interest rate method. As of March 31, 2008, ATB held $35,483 HTM assets (nil for April 1, 2007).

Note 3 (continued)

Loans and Receivables

Financial assets classified as loans and receivables are accounted for at amortized cost using the effective interest-rate method.

Financial Liabilities

Financial liabilities, except for derivatives, are measured at amortized cost using the effective interest-rate method unless classified as HFT (or designated as such under the fair value option).

Effective interest rate method

Prior to adopting the new standards, all transaction and origination costs relating to financial assets and liabilities were expensed as incurred within non-interest expenses in the Consolidated Statement of Income. Significant loan fees were deferred and recognized in the Consolidated Statement of Income as net interest income on a straight-line basis over the term of the loan. Amortized cost for loans and deposits was determined on the basis of the contractual rate, as was any related interest income and interest expense.

On adoption of the new standards, ATB adjusted the balance of deferred loan fees as of April 1, 2007, as if all origination, restructuring, and renegotiation fees were deferred as received, and amortized into income using the effective interest rate method. Incremental direct costs relating to the origination of loans are netted against deferred loan fees and recognized on an effective-yield basis in a manner consistent with the appropriate fee. The effective interest rate method also incorporates management's best estimate regarding expected future cash flows and the impact of off-market interest rates in the determination of amortized cost.

Derivatives and hedge accounting

ATB enters into over-the-counter derivative contracts in the normal course of business. These contracts are used either for ATB's own risk management purposes to manage its exposure to fluctuations in interest rates or equity markets or are used to facilitate ATB's clients' own risk-management programs. These contracts are hereinafter referred to as the "corporate" or "non-trading" portfolio and the "client" or "trading" portfolio, respectively. (Refer to Note 14 to the statements for a complete description of these derivative financial instruments.)

Prior to adopting the new standards, ATB's corporate derivative contracts that qualified for hedge accounting in accordance with Accounting Guideline 13 ("AcG-13") were accounted for on an accrual basis with any income or expense amounts attributable to the hedging instruments recognized in the Consolidated Statement of Income in the same category and period as the related hedged item. The fair value of derivative contracts that qualified for hedge accounting was not recognized in the Consolidated Balance Sheet during the life of the hedging relationship. Client derivatives and any corporate derivatives that did not meet the criteria for hedge accounting were measured at fair value and recognized as an asset or liability in the Consolidated Balance Sheet, with changes in fair value recognized in the Consolidated Statement of Income.

The new standards for financial instruments require all derivative financial instruments, including "embedded derivatives," to be classified as HFT and measured at fair value on the Consolidated Balance Sheet beginning April 1, 2007. Derivatives having positive fair value are presented as derivative assets and those having negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are now recorded in net income unless the derivative qualifies for hedge accounting as a cash-flow hedge, in which case the changes in fair value are reflected in other comprehensive income.

Embedded derivatives

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Under the new standards, embedded derivatives having economic characteristics and risks that are 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. Prior to adopting the new standards, ATB did not account for embedded derivatives separately from the host contract.

On and subsequent to adoption of the new standards, ATB reviewed contracts signed after March 31, 2004, and identified embedded derivatives within certain extendible loan contracts and within all equity-linked deposit contracts. As of and subsequent to April 1, 2007, any such embedded derivatives not considered closely related to the host contract have been accounted for separately as derivative assets or liabilities.

Note 3 (continued)

Hedge accounting

Section 3865 establishes new criteria under which hedge accounting may be applied to ATB's corporate derivatives which are held for risk management purposes. 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, thus 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.

For a derivative instrument to qualify for hedge accounting under the new standards, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception in accordance with the new requirements of Section 3865. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash-flow hedge or a fair-value hedge.

As of April 1, 2007, ATB has discontinued hedge accounting for certain previously effective cash-flow hedges and any previously effective fair-value hedges. The cumulative unrealized gain or loss on such derivative instruments as of April 1, 2007, was recognized in opening retained earnings on the transition date.

No derivative instruments have been designated as fair value hedges as of March 31, 2008 (or as of April 1, 2007).

Cash Flow Hedges

The derivative instrument in a cash-flow hedge is intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest-rate derivatives to manage risk relating to the variability of cash flows from variable-rate securities and loans as well as certain deposits. In a qualifying cash-flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in other comprehensive income and the ineffective portion in net income. Any such amounts recognized in AOCI are reclassified from other comprehensive income into net income in the same period that the underlying hedged item affects net income.

To the extent cash-flow hedging relationships that existed prior to adoption of the new standards are continued and qualify under the new criteria, any cumulative unrealized gain or loss on the hedging instrument that is attributable to the effective portion of the hedge relationship as of April 1, 2007, was recognized in AOCI and that portion of the unrealized gain or loss attributable to the ineffective portion was recognized in opening retained earnings on transition.

The fair value of corporate derivative instruments that have been designated and qualify as cash-flow hedges as of March 31, 2008 (and as of April 1, 2007), is disclosed in Note 14.

Comprehensive income and accumulated other comprehensive income

Comprehensive income is comprised of net income and other comprehensive income. For ATB, other comprehensive income includes net unrealized gains and losses on securities and interest-bearing deposits with financial institutions classified as available for sale and changes in fair value of the effective portion of cash-flow-hedging derivative financial instruments.

Amounts recognized in other comprehensive income will eventually be reclassified to the Consolidated Statement of Income and reflected in net income as gains or losses once securities and interest-bearing deposits with financial institutions classified as AFS are realized or as cash-flow hedging derivative financial instruments become ineffective.

Comprehensive income and its components are disclosed in the new Consolidated Statement of Changes in Equity. This statement also presents the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a new component of equity on the Consolidated Balance Sheet.

Note 3 (continued)

Transition adjustments

On ATB's adoption of new accounting policies for financial instruments, the following transition adjustments have been recorded as adjustments to the opening April 1, 2007 balances of assets, liabilities, and equity:

	($ thousands)			
	Assets	Liabilities	Retained earnings	Accumulated other comprehensive income
Unrealized gains on securities and deposits with financial institutions classified as available-for-sale, net	$ 715	$ -	$ -	$ 715
Unrealized (losses) on securities and deposits with financial institutions classified as held-for-trading, net	(2)	-	(2)	-
Effective yield adjustment of loan portfolio for loan and credit fees	(5,121)	-	(5,121)	-
Fair value of corporate derivative instruments previously not recognized	57,072	(1,522)	55,848	2,746
Fair value of derivative instruments embedded in loans and deposits	-	60,518	(60,518)	-
Ineffective portion of cash flow hedges	(88)	-	(88)	-
Reversal of transition balances deferred on adoption of AcG-13	-	(171)	171	-
Carrying amounts no longer considered assets or liabilties	-	317	(317)	-
	$ 52,576	$ 59,142	$ (10,027)	$ 3,461

Other

On adoption of the new standards, ATB elected to recognize investment transactions relating to its securities portfolio on a settlement date basis.

NOTE 4 CASH RESOURCES

Cash consists of cash on hand, bank notes and coins, and non-interest-bearing deposits with the Bank of Canada and other financial institutions. Interest-bearing deposits with other financial institutions have been classified as either held for trading ("HFT") or available for sale ("AFS") and are recorded at fair value. Interest income on interest-bearing deposits 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 (refer to Note 9) and other liabilities (refer to Note 11).

The March 31, 2008 carrying value consists of $1,862,534 of interest-bearing deposits with financial institutions classified as AFS, and $65,696 classified as HFT.

NOTE 5 SECURITIES

Securities consist of investments in commercial paper and debt securities issued by the federal and provincial governments and investment-grade banks. All debt securities held are purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive.

Interest income and any amortization of premiums and discounts are recorded in interest income in the Consolidated Statement of Income. Gains and losses realized on the disposal of securities, calculated using the average-cost method, are included in other income in the Consolidated Statement of Income.

Note 5 continued)

The carrying value of securities, by remaining term to maturity and net of valuation provisions, is as follows:

	($ thousands)			
	As at March 31, 2008			March 31, 2007
	Less than 1 year	Greater than 5 years	Total carrying value	Total carrying value
Issued or guaranteed by the Canadian federal government	$ 161,304	$ -	$ 161,304	$ 110,705
Commercial paper				
Third-party-sponsored ABCP	-	825,984	825,984	1,267,340
Bank-sponsored ABCP	-	76,333	76,333	300,865
Corporate paper	182,766	-	182,766	997
Total commercial paper	182,766	902,317	1,085,083	1,569,202
Other	7,131	-	7,131	4,914
	$ 351,201	$ 902,317	$ 1,253,518	$ 1,684,821

The March 31, 2008 carrying value consists of $1,180,351 of securities classified as AFS, $37,684 HFT, and $35,483 HTM.

The total carrying value of corporate debt securities in the preceding schedule includes securities denominated in US funds totalling $37,684 as at March 31, 2008 (2007: $29,414).

As described in Note 15, ATB has pledged certain securities and interest-bearing deposits with financial institutions as at March 31, 2008, having total carrying value of $362,500 (2007: $313,300).

Third-Party-Sponsored Asset-Backed Commercial Paper

The Canadian market for third-party- or non-bank-sponsored asset-backed commercial paper ("ABCP") suffered a liquidity disruption in mid-August 2007, following which a group of market participants, including major investors, banks, asset providers, dealers, and third-party sponsors, agreed to work collectively to restructure this market segment. As at March 31, 2008, ATB holds investments in such ABCP with a net carrying value of $826.0 million (or $1.1-billion gross investment, excluding the $252.5-million provision) as detailed in the table above. This agreement, which came to be known as the Montreal Accord (the "Accord"), provided for a standstill period during which participating investors would not demand repayment of their ABCP investments as they matured and the commercial paper issuers would not make liquidity calls to their liquidity providers, who, in turn, would not demand additional collateral from the issuers. Participants to the Accord also agreed in principle to conversion of the ABCP notes into longer-term floating-rate notes ("FRNs") with maturities corresponding to those of the underlying assets. The Pan-Canadian Investors Committee ("Investors Committee") was subsequently established to oversee the orderly restructuring of these instruments during this standstill period. ATB is a signatory to the Accord and a member of the Investors Committee, and continues to actively support the restructuring process.

When these ABCP investments were originally purchased by ATB, Dominion Bond Rating Service had rated them R1 high and they complied with the criteria of ATB's investment policy.

Note 5 (continued)

Anticipated Restructuring – Montreal Accord

On March 20, 2008, a Notice of Proceedings and Meeting was issued in respect of the plan of compromise and arrangement (the "Plan") proposed and supported by the Investors Committee pursuant to the Companies' Creditors Arrangement Act (Canada). This Plan provides for comprehensive restructuring of all the outstanding third-party debt obligations (the "affected ABCP") under the Accord. Investors' holdings of ABCP backed by traditional or ineligible assets will be restructured separately as TA tracking notes or IA tracking notes, while notes backed primarily by synthetic assets will be pooled with those of other investors into one of two entities the Investors Committee refers to as "master asset vehicles" (or "MAV1" and "MAV2"). Based on this and other public information, it is estimated that, of the $1.0 billion of ABCP in which ATB has invested:

- $75.8 million is represented by traditional securitized assets, and on restructuring ATB expects to receive TA Tracking long-term FRNs with a maturity of approximately 6.4 to 8.3 years.

- $943.9 million is represented by a combination of leverage-collateralized debt, synthetic assets, and traditional securitized assets and upon restructuring, ATB expects to receive replacement senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term FRNs with maturities of approximately 8.5 years. ATB expects to receive replacement notes with par values as follows:

Class A-1:	$445.8 million
Class A-2:	$400.8 million
Class B:	$69.0 million
Class C:	$28.3 million

  The replacement senior notes are expected to obtain a rating of AA, while the replacement subordinated notes are likely to be unrated; and

- $13.8 million is represented by assets that have an exposure to US sub-prime mortgages. On restructuring, ATB expects to receive IA Tracking long-term FRNs with maturities of approximately 8.5 years. There has been no indication whether these notes will be rated or not.

In order for the restructuring to proceed, the Plan requires the support of note-holders constituting a majority in number (i.e., 50% plus 1 of the number of note-holders) and representing not less than 66 2/3% of the total aggregate principal amount of affected ABCP. While there is no guarantee as at March 31 that the restructuring will succeed as outlined, the likelihood of success was assumed to be highly probable in our valuation.

Under its current regulatory framework, ATB is restricted from making investments in a single entity in excess of 25% of ATB's capital. Under the terms of the current Plan, ATB's post-restructuring holdings in notes of a MAV would exceed that limit. As at March 31, 2008 ATB is currently working with the Government of Alberta to resolve this matter and is assuming a successful resolution for the purposes of the estimated valuation of the subject assets. (Refer to Note 22 – to the statements for further details.)

Skeena Capital Trust

Skeena Capital Trust, one ABCP investment held by ATB that was subject to the Accord, was successfully restructured in December 2007. ATB received a combination of cash ($55.7 million) and a long-term FRN ($34.8 million) issued by a successor trust in exchange for its holdings of $91.9 million in the Skeena Capital Trust. The FRN, with a rate of Canadian Deposit Offering Rate + 155 basis points and a nine-year term, was recorded on initial recognition as a held to maturity investment at a fair value of $35.5 million—resulting in a net loss on the Skeena Capital Trust of $0.6 million, or 0.69% of ATB's original investment. This loss is included in the provision for loss on asset-backed commercial paper in the Consolidated Statement of Income.

Valuation – Montreal Accord

In the continued absence of an active market for the third-party-sponsored ABCP subject to the Montreal Accord, ATB has estimated the fair value of these investments as at March 31, 2008, using a probability-weighted discounted cash-flow valuation model. This model incorporates management's best estimates of multiple factors, updated to reflect market-related and other additional information that has become available since the corresponding valuation as at December 31, 2007.

Note 5 (continued)

Valuation – Montreal Accord (continued)

Although the issuance of the Plan removes much of the uncertainty relating to the structure of the expected follow-on investment, there still remains a level of inherent uncertainty as to the outcome of the vote for support and whether other ongoing negotiations will succeed. As a result, management was required to make a number of significant assumptions in modelling the estimated fair value of these ABCP investments. In particular, management has assumed a very high probability of success of the Accord under the terms outlined in the Plan.

In determining the estimated fair value of these ABCP investments, management assumed that ATB will participate in MAV1 and used the cost of the facility in MAV2 as the basis for estimating the value of the MAV1 self-insured margin-funding facility. The valuation model does not contemplate any potential costs that would be incurred in the event that ATB chooses to hedge any portion of this facility guarantee. The fair value of any such arrangement would be recognized as a liability (with a corresponding charge to net income) in the period that the arrangement is established. Depending on the terms and conditions arranged, the value of that liability (and the charge to net income) could be material to our financial results.

The valuation model also involves assumptions regarding the difference between the yield ATB expects to earn from the restructured FRNs and the appropriate market-discount rate attributable to such investments. The estimated investment yields were determined based on available information. The estimated market-discount rates for the various types of follow-on investments (traditional, and the A-1, A-2, B, and C notes in MAV1) were determined by reference to market rates for other market investments and appropriate forward-credit indices. They were then adjusted to include an estimated premium to reflect the expected lack of liquidity in the restructured floating rate notes together with the leveraged nature of the underlying assets, and were adjusted for subordination where appropriate. Management's best estimate from this exercise is that for traditional and synthetic assets there will be a shortfall between the expected yield and expected discount rate of between 85 basis points (for traditional tracking notes) and 648 basis points (for C notes).

The valuation model also incorporates assumptions regarding the probability of success or failure of the restructuring process for each of the various assets or, in the event of such a failure, the probability of an alternate restructuring plan or the continued recovery of asset value by each trust separately, either as a going concern or by way of an orderly liquidation. The likelihood of a comprehensive failure of the Investors Committee to implement the restructuring pursuant to the Accord is considered remote. Other significant assumptions include the expected date of issuance of the restructured investments and the repayment on restructuring of interest earned on the ABCP notes since the date of disruption at the original rate for each investment.

The valuation of the ineligible assets (primarily US subprime assets) is based on information detailed in the Plan and the accompanying Report of Restructuring.

Bank-Sponsored Asset-Backed Commercial Paper

During the fourth quarter of 2008, the two bank-sponsored ABCP investments held by ATB suffered a liquidity disruption and were at some risk of liquidation, which would have resulted in losses to ATB. Separate restructuring plans have been announced for both of these trusts outside of the Accord. In general, these restructuring plans are similar to the Accord in that the current investments will be restructured into long-term notes (approximately nine years) to match the maturity date of the underlying assets. The expectation is that both of these trusts will be restructured on or before May 30, 2008. In the absence of an active market for these investments, ATB has estimated their fair value as at March 31, 2008, using a probability-weighted discounted-cash-flow-valuation model similar to the approach used for the Accord holdings. Key assumptions included:

- expected cash flows—interest is expected to be paid monthly over a nine-year term, with anticipated lump sum principal payments and ultimate full repayment at the end of nine years;
- an appropriate market-discount rate to use in the discounted cash flow—expected shortfall between the expected yield and the expected discount rate to range from 197 to 380 basis points; and
- expected credit losses and the cost of any required margin-funding facility

Note 5 (continued)

Fair Value Provision

Based on the two analyses described above (and as outlined in the following table), ATB has determined that a total fair-value provision of $252.5 million is required to adjust downward the carrying value of its ABCP holdings (both third-party- and bank-sponsored ABCP). This provision is considered to represent an other-than-temporary impairment in the value of these investments and has been reflected as a separate charge in the Consolidated Statement of Income.

As at March 31, 2008	*($ thousands)* Gross Investment Including Accrued Interest [1]	Provision	Estimated Fair Value	Provision Per cent
Montreal Accord ABCP				
Synthetic assets	$ 965,545	$ (224,368)	$ 741,177	23.24%
Traditional assets	77,465	(4,805)	72,660	6.20%
Ineligible assets	13,826	(13,826)	-	100.00%
	1,056,836	(242,999)	813,837	22.99%
Bank-Sponsored ABCP	85,834	(9,501)	76,333	11.07%
Fair value provision as at March 31, 2008	$ 1,142,670	$ (252,500)	$ 890,170	22.10%
Realized loss on Skeena Capital Trust		(633)		
Total Income Statement Provision		$ (253,133)		

[1] Includes $23.3 million of interest recognized and accrued in other assets since the market disruption.

In addition to this fair value provision, ATB accrued $2.0 million in the second quarter for its estimated share of restructuring costs associated with the Accord. This provision is considered adequate and no additional provision for such expenditures is anticipated.

Measurement Uncertainty

The ongoing nature of the restructuring negotiations contributes to a lack of certainty regarding the outcome of the restructuring process. This lack of certainty, in turn, contributes to significant measurement uncertainty in management's best estimate of the fair value of ATB's current ABCP investments. Since the eventual timing and amount of future cash flows attributable to these assets may vary significantly from management's current best estimates, it is possible that the ultimate fair value of these assets may vary significantly from current estimates and that the magnitude of any such difference could be material to our financial results.

Other

Of the total $826.0 million (net of provision and accrued interest) of third-party-sponsored ABCP held by ATB as at March 31, 2008, $255.0 million was acquired through an exchange with our Investor Services subsidiaries as of August 24, 2007. These assets were acquired at par value in exchange for cash and ATB term-deposit certificates. The balance of our investments in third-party-sponsored ABCP was acquired before the mid-August market disruption through our short-term liquidity-management program.

NOTE 6 LOANS

Loans are recorded at amortized cost using the effective interest-rate method, net of specific and general allowance for credit losses. (Refer to Note 3 for details of the effective interest-rate method). Interest income related to loans is accounted for using the accrual basis of accounting.

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, interest income ceases to be accrued and 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. 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 recovered, and allowances for credit losses 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, 2008 (and March 31, 2007), is insignificant.

Loans consist of the following:

($ thousands)

	2008				2007
	Gross impaired loans	Specific allowances	General allowances	Net carrying value	Net carrying value
Residential mortgage	$ 7,719,066	$ 519	$ 10,623	$ 7,707,924	$ 6,956,015
Personal	4,089,104	2,084	25,095	4,061,925	3,077,539
Credit card	450,007	-	13,932	436,075	357,953
Agricultural	1,273,976	1,450	13,922	1,258,604	1,285,155
Independent business	2,176,224	3,603	43,906	2,128,715	2,105,003
Commercial	3,896,910	1,104	45,532	3,850,274	3,212,664
	$ 19,605,287	$ 8,760	$ 153,010	$ 19,443,517	$ 16,994,329

The total net carrying value of loans above includes residential mortgages insured primarily by Canadian Mortgage and Housing Corporation, totalling $3,434,926 as at March 31, 2008 (2007: $3,320,885), and other insured loans, totalling $97,541 (2007: $101,615).

The total net carrying value of loans above includes loans denominated in US funds, totalling $233,212 as at March 31, 2008 (2007: $133,562).

Note 6 (continued)

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

	($ thousands)			
	2008			2007
	Gross impaired loans	Specific allowances	Net carrying value	Net carrying value
Residential mortgage	$ 13,896	$ 519	$ 13,377	$ 12,186
Personal	6,697	2,084	4,613	3,960
Agricultural	10,750	1,450	9,300	12,866
Independent business	9,738	3,603	6,135	3,937
Commercial	1,298	1,104	194	1,779
	$ 42,379	$ 8,760	$ 33,619	$ 34,728

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, 2008, no single-industry segment represents more than 23.84% of total gross business loans, and no single borrower represents more than 0.51% of the total gross loan portfolio (2007: 25.65% and 0.45%, 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 but also provides for any credit risk relating to off-balance-sheet items such as 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 a reduction of total loan balances or, for any portion of loan-related allowances in excess of the related loan balance, is 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 larger 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 fair value of any underlying security, discounted to the amount recoverable in the event of realization or to the observable market value for the loan. The specific allowance on consumer loans and smaller non-consumer loans is calculated using a formula based on recent loss experience for the particular product type. 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 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.

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 that 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 level of expected recoveries, if any, are also considered.

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

	($ thousands)								
	Sepecfic			General			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Balance at begining of year	$ 15,352	$ 19,348	$ 32,147	$141,827	$145,099	$140,829	$157,179	$164,447	$172,976
Write-offs	(10,224)	(7,262)	(14,584)	-	-		(10,224)	(7,262)	(14,584)
Recoveries	5,045	5,205	5,367	-	-		5,045	5,205	5,367
Provision for (recovery of) credit losses, excluding impact of new GLLA methodology	1,723	(1,939)	(3,582)	11,183	21,057	4,270	12,906	19,118	688
Impact of new GLLA methodology(1)					(24,329)		-	(24,329)	-
Balance at end of year	11,896	15,352	19,348	153,010	141,827	145,099	164,906	157,179	164,447
Less: Allownace for cost of credit recovery included in other liabilities	3,136	3,345	3,243	-	-	-	3,136	3,345	3,243
Allowance for credit losses	$ 8,760	$ 12,007	$ 16,105	$153,010	$141,827	$145,099	$161,770	$153,834	$161,204

(1) During the second quarter of the prior fiscal year, ATB implemented a refined methodology for establishing the level of its general loan loss allowance. This represented a change in estimate, was accounted for prospectively, and resulted in a one-time recovery of $24.3 million.

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. No amortization is calculated on assets under construction and under development until the assets are placed into use. The estimated useful life for the various asset classes is 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

	($ thousands)			
	2008			2007
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Land	$ 7,546	$ -	$ 7,546	$ 7,310
Buildings	74,789	57,508	17,281	14,467
Computer equipment and software	129,020	85,300	43,720	38,264
Other equipment	42,683	31,212	11,471	11,886
Leasehold improvements	109,183	68,493	40,690	41,356
Computer equipment and software under development	55,482	-	55,482	45,534
Leasehold improvements under construction	32,685	-	32,685	18,744
	$ 451,388	$ 242,513	$ 208,875	$ 177,561

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2008, in respect of the above assets was $32,666 (2007: $29,218; 2006: $27,886).

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, ATB assesses 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, 2008 (2007: nil; 2006: nil).

NOTE 9 OTHER ASSETS

Other assets are comprised of the following:

	($ thousands)	
	2008	2007
Accrued interest receivable	$ 177,617	$ 146,292
Cheques and other items in transit	66,300	127,200
Accrued pension-benefit asset (Note 13)	20,826	20,164
Prepaid expenses and other receivables	40,475	17,509
Other	2,978	3,028
	$ 308,196	$ 314,193

NOTE 10 DEPOSITS

Deposit balances are comprised of the following:

($ thousands)

	Payable on demand	Payable after notice	Payable on a fixed date: Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	2008 Total	2007 Total
Personal	$ 1,534,146	$ 2,237,142	$ 3,209,973	$ 1,860,978	$ 588,724	$ 155,475	$ 171,362	$ 40	$ 9,757,840	$ 9,156,823
Business	3,710,531	1,091,533	3,008,129	147,856	48,227	14,994	14,320	-	8,035,590	7,430,036
Wholesale	-	-	1,988,272	-	-	796,579	398,290	199,145	3,382,286	1,665,979
	$ 5,244,677	$ 3,328,675	$ 8,206,374	$ 2,008,834	$ 636,951	$ 967,048	$ 583,972	$ 199,185	$ 21,175,716	$ 18,252,838

Total deposits presented above include $423,488 (2007: $229,840) denominated in US funds.

As at March 31, 2008, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $3,048 (2007: $2,262) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $149 (2007: $516).

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 payable by ATB. For the year ended March 31, 2008, the fee was $20,210 (2007: $15,990).

NOTE 11 LIABILITIES

Other liabilities are comprised of the following:

($ thousands)

	2008	2007
Accrued interest payable	$ 161,072	$ 156,675
Accounts payable and accrued liabilities	137,035	131,537
Cheques and other items in transit	17,200	17,700
Deposit guarantee fee payable	20,210	15,990
Due to clients, brokers, and dealers	3,301	11,837
Accrued pension-benefit liability (Note 13)	4,779	3,887
	$ 343,597	$ 337,626

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 (see Note 10). 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 fee for the year ended March 31, 2008, is recorded in other liabilities in the Consolidated Balance Sheet (see Note 11). Subordinated debentures, issued to March 31, 2008, are comprised of the following:

		($ thousands)	
Maturity date	Interest rate	2008	2007
June 30, 2007	5.810%	$ -	$ 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	13,401
June 30, 2012	4.450%	15,990	-
		$ 72,998	$ 72,242

NOTE 13 EMPLOYEE FUTURE BENEFITS

ATB provides future benefits to current and past employees through a combination of defined benefit and defined contribution plans.

ATB's current non-management employees participate in the Public Service Pension Plan ("PSPP") with other Alberta public-sector employees. The PSPP is a 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 ("ATB Plan") with defined benefit ("DB") and defined contribution ("DC") provisions. ATB also provides a non-registered defined benefit supplemental plan ("SRP") and other post-employment benefits ("OPEB") for designated management employees.

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 formalized 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. In addition, there are 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 OPEB 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.

In the prior 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 was implemented prospectively in the prior year. Whereas the market-related method used in the prior year 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 market-value method uses market value of plan assets without any averaging adjustment.

Note 13 (continued)

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other Plans

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 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 as a plan amendment in the year ended March 31, 2006. The March 31, 2006, projected benefit obligation of the DB plan was increased by $5,438 (in respect of active members) and increased by $686 for other pension obligations (in respect of inactive members).

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.

Accounting for PSPP and Defined Contribution Plans

ATB accounts for its participation in the 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, 2008, expenses related to the PSPP were $6,564 (2007: $5,457; 2006: $4,570) and expenses related to DC provisions of the ATB Plan were $6,861 (2007: $6,927; 2006: $5,676).

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 OPEB obligations. The most recent actuarial valuation of the DB provisions of the ATB Plan ("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, 2008		Actual	Target 2005-2007 (1)		Actual	Actual
(in per cent)	Normal	Min-Max	2008	Normal	Min-Max	2007	2006
Equities							
Canadian	25	20-30	24	40	30-50	27	44
Foreign	45	40-50	41	30	20-40	43	28
	70		65	70		70	72
Fixed Income							
Canadian	30	20-40	35	30	25-40	30	28
Cash	-	0-15	-	-	0-15	-	-
	100		100	100		100	100

(1) Target asset allocations were amended March 27, 2007.

Note 13 (continued)

Plan Valuations, Asset Allocation, and Funding (continued)

ATB makes regular funding contributions to the DB Plan in accordance with the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due.

Cash Payments

Total cash paid or payable for employee future benefits for the year ended March 31, 2008— consisting of cash contributed by ATB in respect of the DB and DC provisions of the ATB Plan, cash payments made directly to beneficiaries for the unfunded SRP, and cash contributed to the PSPP— was $17,636 (2007: $39,024; 2006: $13,202).

Net Accrued 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, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB) are comprised of the following:

	($ thousands)	
	2008	2007
Registered Plan		
Fair value of plan assets	$ 143,800	$ 154,277
Projected benefit obligation	(151,063)	(163,129)
Plan funding deficit	(7,263)	(8,852)
Unamortized initial-transition asset	(394)	(788)
Unamortized past-service amendment	16,012	15,466
Unamortized actuarial net loss	12,471	14,338
Accrued Pension-Benefit Asset	$ 20,826	$ 20,164
Supplemental and Other		
Unfunded projected benefit-obligation, representing the plan funding deficit	$ (6,131)	$ (6,513)
Unamortized past-service amendment	1,626	1,833
Unamortized actuarial net loss	(274)	793
Accrued Pension-Benefit Liability	$ (4,779)	$ (3,887)

The net accrued benefit asset and liability are included in other assets and other liabilities in the Consolidated Balance Sheet as appropriate. (Refer to Notes 9 and 11, respectively.)

Note 13 (continued)

Changes in Plan Assets and Benefits Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan and of the SRP and OPEB obligations are comprised of the following:

	($ thousands)					
	Registered Plan			Supplemental and Other		
	2008	2007	2006	2008	2007	2006
Change in Fair Value of Plan Assets						
Fair value of plan assets at beginning of year	$ 154,277	$ 94,127	$ 78,170	$ -	$ -	$ -
Contributions from ATB	3,507	26,503	2,374	704	137	393
Contributions from employees	1,061	1,065	1,069	-	-	-
Actual (loss) return on plan assets	(11,351)	11,903	16,220	-	-	-
Benefits paid	(6,116)	(3,752)	(2,798)	(704)	(137)	(393)
Net transfer in - PSPP take-on 2006	-	21,918	-	-	-	-
Net transfer in - PSPP take-on 2007	-	3,574	-	-	-	-
Net transfer in - PSPP take-on 2008	3,367	-	-	-	-	-
Actual plan expenses	(945)	(1,061)	(908)	-	-	-
Fair value of plan assets at end of year	$ 143,800	$ 154,277	$ 94,127	$ -	$ -	$ -
Change in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	$ 163,129	$ 118,040	$ 95,894	$ 6,513	$ 2,442	$ 1,541
Actuarial (gain) loss	(24,055)	(4,638)	10,294	(1,046)	447	294
Current service cost	2,352	3,064	2,365	976	633	221
Contributions from employees	1,061	1,065	1,069	-	-	-
Plan amendments re. PSPP take-on	-	-	5,438	-	-	686
Plan amendment - earnings maximum	-	-	-	-	2,838	-
Plan amendment - PSPP take-on 2006	-	13,231	-	-	-	-
Plan amendment - PSPP take-on 2007	-	2,727	-	-	-	-
Plan amendment - PSPP take-on 2008	2,548	-	-	-	-	-
Net transfer in - PSPP take-on 2006	-	21,918	-	-	-	-
Net transfer in - PSPP take-on 2007	-	3,574	-	-	-	-
Net transfer in - PSPP take-on 2008	3,367	-	-	-	-	-
Interest cost	8,777	7,900	5,778	392	290	93
Benefits paid	(6,116)	(3,752)	(2,798)	(704)	(137)	(393)
Projected benefit obligation at end of year	$ 151,063	$ 163,129	$ 118,040	$ 6,131	$ 6,513	$ 2,442

Note 13 (continued)

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the SRP and OPEB is comprised as follows:

	($ thousands)					
	Registered Plan			Supplemental and Other		
	2008	2007	2006	2008	2007	2006
Current service cost (including provision for expenses)	$ 3,252	$ 4,264	$ 3,265	$ 976	$ 633	$ 221
Interest cost on projected benefit obligation	8,777	7,900	5,778	392	290	93
Plan amendments	2,548	15,958	5,438	-	2,838	686
Actual loss (return) on plan assets	11,351	(11,903)	(16,220)	-	-	-
Actuarial (gains) losses	(24,055)	(4,638)	10,294	(1,046)	447	294
	1,873	11,581	8,555	322	4,208	1,294
Adjustments to recognize the long-term nature of employee future-benefit costs:						
Difference between actual and expected return on plan assets	(22,143)	4,080	10,659	-	-	-
Difference between actual actuarial (gains) losses arising and actuarial (gains) losses amortized	24,055	6,130	(8,064)	1,067	(437)	(282)
Amortization of initial transition asset	(394)	(394)	(394)	-	-	-
Difference between actual past-service amendment arising and past-service amendments amortized	(546)	(14,408)	(1,058)	207	(2,651)	(219)
Net pension-benefit expense recognized	$ 2,845	$ 6,989	$ 9,698	$ 1,596	$ 1,120	$ 793

Key Assumptions and Sensitivities

The significant assumptions used in the actuarial determination of projected benefit obligations and the related net benefit expense are, on a weighted-average basis, as follows:

	Registered Plan			Supplemental and Other		
	2008	2007	2006	2008	2007	2006
Accrued Benefit Obligation as at March 31						
Discount rate at end of year	6.20%	5.30%	5.40%	6.20%	5.30%	5.40%
Rate of compensation increase (1)	4.40%	4.60%	5.20%	6.00%	5.80%	4.70%
Defined Benefit Expense for the Year Ended						
Discount rate at beginning of year	5.30%	5.40%	5.90%	5.30%	5.40%	5.90%
Expected long-term return on plan assets	6.96%	7.12%	7.35%	-	-	-
Rate of compensation increase (1)	4.60%	5.20%	4.45%	5.80%	4.70%	4.50%
Avg. remaining service period of active employees	9 years	9 years	9 years	12 years	12 years	14 years
Avg. remaining service period of active employees						
(2006 PSPP transfer)	10.6 years	10.6 years	-	-	-	-
(2007 PSPP transfer)	11.2 years	11.2 years	-	-	-	-
(2008 PSPP transfer)	11.2 years	-	-	-	-	-

(1) The long-term weighted-average rate of compensation increase, including merit and promotion.

Note 13 (continued)

Key Assumptions and Sensitivities (continued)

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, 2008, and the related expense for the year then ended:

	Registered Plan		Supplemental and Other	
	Benefit Obligation	Benefit Expense	Benefit Obligation	Benefit Expense
Discount Rate				
Impact of: 1.0% increase	$ (22,712)	$ (721)	$ (952)	$ (168)
1.0% decrease	$ 28,997	$ 3,821	$ 1,152	$ 276
Inflation Rate				
Impact of: 1.0% increase	$ 10,944	$ 2,007	$ 269	$ 76
1.0% decrease	$ (9,962)	$ (898)	$ (259)	$ (66)
Rate of Compensation Increase				
Impact of: 0.25% increase	$ 1,654	$ 154	$ 23	$ 4
0.25% decrease	$ (1,647)	$ (181)	$ (21)	$ (4)
Expected Long-term Rate of Return on Plan Assets				
Impact of: 1.0% increase	$ -	$ (1,551)	$ -	$ -
1.0% decrease	$ -	$ 1,551	$ -	$ -

This sensitivity analysis should be used with caution as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables, and actual experience may result in simultaneous changes to a number of key assumptions. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

NOTE 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.

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.

Note 14 (continued)

The main types of derivative financial instruments used by ATB are as follows:

Swaps

Swaps are transactions where two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- Interest-rate swaps are transactions whereby ATB exchanges fixed and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate derivative portfolio to manage exposure to interest-rate fluctuations, primarily arising from the investment, loan, and deposit portfolios.
- Cross-currency swaps are transactions whereby ATB exchanges interest and principal payments in different currencies. These are used in the corporate portfolio to manage ATB's foreign exchange risk.

Options

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.

Forwards

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 or within a specified period of time. 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.

The amount of other comprehensive income that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $17,987. This will be offset by gains/losses on assets/liabilities that were hedged. (Refer to Note 3 for further details of ATB's hedge accounting.)

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.

Client derivatives and any corporate derivatives that do not meet the criteria for hedge accounting, either at inception or subsequently, are marked to market. Any such contracts having positive fair value are presented as derivative assets and those having a negative fair value are presented as derivative 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.

Note 14 (continued)

Fair Value of Derivatives

Fair value represents a point-in-time estimate that may change in subsequent reporting periods due to changing market conditions or other factors. Fair-value estimates of over-the-counter and embedded 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.

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) is comprised of the following:

	($ thousands)					
	2008			2007		
	Favourable Position	Unfavourable Position	Net	Favourable position	Unfavourable Position	Net
Contracts Ineligible for Hedge Accounting						
Interest rate contracts						
Options	$ 782	$ -	$ 782	$ 704	$ -	$ 704
Swaps	2,263	(12)	2,251	287	-	287
	3,045	(12)	3,033	991	-	991
Embedded derivatives (1)						
Equity-linked deposits	-	(48,433)	(48,433)	-	-	-
Other	-	(161)	(161)	-	-	-
	-	(48,594)	(48,594)	-	-	-
Foreign-exchange contracts						
Forwards	195	(179)	16	127	(115)	12
Equity contracts						
Options	47,200	-	47,200	7,484	-	7,484
Forward contracts						
Commodities	28,070	(27,813)	257	3,204	(3,131)	73
Total fair value ineligible contracts	$ 78,510	$ (76,598)	$ 1,912	$ 11,806	$ (3,246)	$ 8,560
Contracts Eligible for Hedge Accounting						
Interest rate contracts						
Options	$ -	$ -	$ -	$ 37	$ -	$ 37
Swaps	30,740	(5,792)	24,948	5,118	(2,460)	2,658
	30,740	(5,792)	24,948	5,155	(2,460)	2,695
Foreign-exchange contracts						
Forwards	-	-	-	-	-	-
Equity contracts						
Options	-	-	-	66,676	-	66,676
Total fair value eligible contracts	$ 30,740	$ (5,792)	$ 24,948	$ 71,831	$ (2,460)	$ 69,371
Total fair value	$ 109,250	$ (82,390)	$ 26,860	$ 83,637	$ (5,706)	$ 77,931

(1) Embedded derivatives were not seperately identified prior to the current fiscal year

Note 14 (continued)

Notional Principal Amounts

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Balance Sheet.

	($ thousands)			
	2008			2007
	Ineligible for Hedge Accounting	Eligible for Hedge Accounting	Total	Total
Interest rate contracts				
Options	$ 131,080	$ -	$ 131,080	$ 999,116
Swaps	85,039	2,650,000	2,735,039	2,950,000
	216,119	2,650,000	2,866,119	3,949,116
Embedded derivatives (1)				
Equity-linked deposits	257,078	-	257,078	-
Other	105,130	-	105,130	-
	362,208	-	362,208	-
Foreign-exchange contracts				
Forwards	19,992	-	19,992	30,177
Equity contracts				
Options	249,650	-	249,650	263,920
Forward contracts				
Commodities	354,738	-	354,738	148,295
	$ 1,202,707	$ 2,650,000	$ 3,852,707	$ 4,391,508

(1) Embedded derivates were not separately identified prior to the current fiscal year.

In addition to the notional amounts of derivative instruments shown above, ATB has certain foreign-exchange spot deals that settle in one day. These deals had notional amounts of $8,550 as at March 31, 2008 (2007: $4,440).

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.

Note 14 (continued)

Derivative-Related Credit Risk (continued)

Credit risk exposure on the derivative portfolio is comprised of the following:

	($ thousands)			
	2008			2007
	Ineligible for Hedge Accounting	Eligible for Hedge Accounting	Total	Total
Interest rate contracts				
Options	$ 782	$ -	$ 782	$ 741
Swaps	2,263	30,740	33,003	5,405
	3,045	30,740	33,785	6,146
Embedded derivatives				
Equity-linked deposits	-	-	-	-
Other	-	-	-	-
	-	-	-	-
Foreign-exchange contracts				
Forwards	195	-	195	127
Equity contracts				
Options	47,200	-	47,200	74,160
Forward contracts				
Commodities	28,070	-	28,070	3,204
Total derivative exposure - gross	$ 78,510	$ 30,740	109,250	83,637
Less impact of master netting agreements			(5,512)	(2,460)
Residual credit exposure on derivatives			$ 103,738	$ 81,177

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $28,265, which relates to client counterparties (2007: $2,353).

Term to Maturity

The instruments in the derivative portfolio have varying maturity dates. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

	($ thousands)					
	2008					2007
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Total
Interest rate contracts						
Options	$ -	$ 31,242	$ 99,838	$ -	$ 131,080	$ 999,116
Swaps	424,595	300,000	2,000,000	10,444	2,735,039	2,950,000
Foreign exchange contracts						
Forwards	11,690	8,302	-	-	19,992	30,177
Equity contracts						
Options	10,020	82,600	157,030	-	249,650	263,920
Forward contracts						
Commodities	28,125	284,399	42,214	-	354,738	148,295
Embedded derivatives (1)						
Equity-linked deposits	13,873	80,740	162,465	-	257,078	-
Other	4,760	22,672	77,698	-	105,130	-
Total	$ 493,063	$ 809,955	$ 2,539,245	$ 10,444	$ 3,852,707	$ 4,391,508

(1) Embedded derivatives were not seperately identified prior to the current fiscal year

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 changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. Again, in the event of a call on such commitments, ATB has recourse against the customer.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

The contractual amounts of all such credit instruments as at March 31 are outlined as follows:

	($ thousands)	
	2008	2007
Guarantees	$ 163,829	$ 133,382
Letters of credit	106,046	70,592
Commitments to extend credit	8,989,493	7,366,610
	$ 9,259,368	$ 7,570,584

The amounts presented above in the current and comparative year for commitments to extend credit include demand facilities of $3,965,904 (2007: $3,221,252). 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.

Note 15 (continued)

Pledged Assets

In the ordinary course of business, ATB pledges securities and interest-bearing deposits with financial institutions to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring. The total amount of securities so pledged at March 31, 2008 and 2007, 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, 2008 and 2007, in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The future minimum payments in respect of such obligations for each of the next five fiscal years and thereafter are outlined as follows:

2009	$ 58,947
2010	44,180
2011	19,221
2012	14,446
2013	10,311
2014 and thereafter	25,715
	$ 172,820

The total expense in respect of premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2008, is $25,088 (2007: $22,231; 2006: $19,953).

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 prepared in accordance with Treasury Board Directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies, and Crown-controlled organizations. In accordance with the directive, the amounts disclosed in the following table reflect amounts earned in the years ended March 31:

Note 16 (continued)

Salary and Benefits

	($ thousands)							
							2008	2007
	Base Salary [1]	Variable Pay Current [2]	Variable Pay Deferred [3]	Other Cash Benefits [4]	Retirement and Other Post-Employement Benefits	Other Non-Cash Benefits [5]	Total	Total
Chairman of the Board	$ 83	$ -	$ -	$ -	$ -	$ -	$ 83	$ 81
Board Members [6]	516	-	-	-	-	-	516	446
President and Chief Executive Officer [7]	406	422	422	25	322	21	1,618	-
President and Chief Executive Officer [8]	100	-	-	40	71	4	215	1,381
Chief Operating Officer [9]	105	-	-	37	72	4	218	903
Executive Vice-President Credit	211	71	88	15	81	16	482	485
Chief Financial Officer	221	87	105	12	64	16	505	467
Executive Vice-President Treasurer	192	65	16	12	83	16	384	442
Senior Vice-President Human Resources	188	63	79	16	71	14	431	419

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.

(3) Deferred variable pay is 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) 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.

(6) The Board consists of 12 members plus the Chairman, whose salary is disclosed separately.

(7) Two incumbents occupied this position during the fiscal 2007–08 year. Amounts presented relate to the current incumbent, who does not participate in either the registered pension plan or the supplemental pension plan, but does receive other post-employment benefits.

(8) Two incumbents occupied this position during the fiscal 2007–08 year. Amounts presented relate to the previous incumbent.

(9) This position was abolished effective August 10, 2007. Amounts presented do not include severance.

Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits presented in the Salaries and Benefits table above reflect the period expense for pension and other post-employment benefit ("OPEB") rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit or defined contribution provisions of ATB's registered pension plan ("RPP") together with participation in our non-registered defined benefit supplemental retirement plan ("SRP"), or through other supplemental post-retirement benefit arrangements.

Note 16 (continued)

Retirement and Other Post-Employment Benefits (continued)

Refer to Note 13 for a detailed description of ATB's accounting for its retirement plans following the heading Accounting for Defined Benefit Plans – Registered, Supplemental, and Other Plans.

	($ thousands)				
	2008				**2007**
	Registered Plan Service Cost (1)	**Supplemental and Other Post-Employment Benefit Service Costs (2)**	**Prior Service and other costs**	**Total**	**Total**
President and Chief Executive Officer (3)	$ -	$ 309	$ 13	$ 322	$ -
President and Chief Executive Officer (4)	4	18	49	71	108
Chief Operating Officer (5)	10	21	41	72	85
Executive Vice-President Credit	12	41	28	81	53
Chief Financial Officer	12	40	12	64	36
Executive Vice-President Treasurer	17	39	27	83	47
Senior Vice-President Human Resources	12	35	24	71	42

Notes:

(1) The RPP current service cost for defined contribution members is equal to the cash contributions made by ATB for the year ended March 31. For defined benefit members, the RPP current service cost is equal to 15.3% of pensionable earnings for the same period, the average cost of service for all members.

(2) As the SRP and OPEB provided are unfunded obligations and are paid from operating revenues as they come due, none of the SRP and OPEB costs represent cash payments in the period. 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 for both SRP and OPEB may include amortization of actuarial gains and losses, amortization of past service amendments, and interest accruing on the accrued benefit obligation. Refer to the table following for further details regarding these benefits.

(3) Two incumbents occupied this position during the fiscal 2007-08 year. Amounts presented relate to the current incumbent, who does not participate in either the registered pension plan or the supplemental pension plan, but does receive other post-employment benefits.

(4) Two incumbents occupied this position during the fiscal 2007-08 year. Amounts presented relate to the previous incumbent.

(5) This position was abolished effective August 10, 2007. Amounts presented do not include severance.

The accrued SRP and OPEB obligation for each executive is as follows:

	($ thousands)		
	Accrued Obligation March 31, 2007	**Change in Accrued Obligation**	**Accrued Obligation March 31, 2008**
President and Chief Executive Officer (1)	$ -	$ 310	$ 310
President and Chief Executive Officer (2)	573	(32)	541
Chief Operating Officer (3)	467	(467)	-
Executive Vice-President Credit	325	5	330
Chief Financial Officer	122	23	145
Executive Vice-President Treasurer	311	(1)	310
Senior Vice-President Human Resources	277	(14)	263

Note 16 (continued)

Retirement and Other Post-Employment Benefits (continued)

Notes:

(1) Two incumbents occupied this position during the fiscal 2007–08 year. The current incumbent does not participate in either the registered pension plan or the supplemental pension plan, but does receive other post employment benefits.

(2) Two incumbents occupied this position during the fiscal 2007–08 year. Disclosure relates to the previous incumbent.

(3) This position was abolished effective August 10, 2007. Amounts presented do not include severance.

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. (Refer to 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, 2008, the total of these payments was $964 (2007: $783). ATB also recognized a 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 (amended November 9, 2007). 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:

	($ thousands)	
	2008	**2007**
Residential mortgage	$ 201,334	$ 173,608
Personal	87,974	69,097
Credit card	11,234	10,257
Business	5,578	5,701
	$ 306,120	$ 258,663

Third-party-sponsored asset-backed commercial paper totalling $255.0 million was acquired through an exchange with our Investor Services subsidiaries as of August 24, 2007. These assets were acquired at par value in exchange for cash and ATB term-deposit certificates.(Refer to Note 5.)

NOTE 18 ESTIMATED FAIR VALUE OF BALANCE SHEET FINANCIAL INSTRUMENTS

The following table presents management's best estimates of the fair value of its financial instruments. 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, 2008, is $224,922 (2007: $193,838).

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, other assets, and other liabilities, except for derivative financial instruments.

Securities

The fair value of securities is based on quoted market prices if available. Where an active market does not exist, the fair value is determined using a valuation technique that makes maximum use of observable market data.

Derivative Instruments

Refer to Note 14 for methods used to determine the fair value of derivative instruments.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates automatically reprice 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.

Note 18 (continued)

Estimated Fair Value

The estimated fair value of balance sheet financial instruments as at March 31 is as follows:

($ thousands)

	2008			2007		
	Carrying Value	Fair Value	Fair Value Over Carrying Value	Carrying Value	Fair Value	Fair Value Over Carrying Value
Assets						
Cash resources	$ 2,019,797	$ 2,019,797	$ -	$ 1,095,614	$ 1,095,614	$ -
Securities [1]	$ 1,253,518	$ 1,253,547	$ 29	$ 1,684,821	$ 1,684,534	$ (287)
Loans	$ 19,443,517	$ 19,878,910	$ 435,393	$ 16,994,329	$ 17,127,398	$ 133,069
Derivative financial instruments [2]	$ 109,250	$ 109,250	$ -	$ 28,200	$ 26,397	$ (1,803)
Other	$ 287,370	$ 287,370	$ -	$ 294,029	$ 295,832	$ 1,803
Liabilities						
Deposits	$ 21,175,716	$ 21,240,537	$ 64,821	$ 18,252,838	$ 18,185,488	$ (67,350)
Derivative financial instruments [2]	$ 82,390	$ 82,390	$ -	$ 8,629	$ 3,758	$ (4,871)
Other	$ 338,818	$ 338,818	$ -	$ 333,739	$ 338,610	$ 4,871
Subordinated debentures	$ 72,998	$ 74,865	$ 1,867	$ 72,242	$ 72,028	$ (214)

(1) Securities were not carried at fair value on the balance sheet prior to the current fiscal year.

(2) Only the ineffective portion of the fair value of derivative financial instruments was carried on the balance sheet prior to the current fiscal year (Refer to Note 14 for additional information)

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 repricing or maturity dates of both. Note that the gap position presented in the following table is determined as of the close of business on March 31, 2008. 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.

Note 19 (continued)

	($ Thousands)							
	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-rate -Sensitive	Total
2008								
Assets								
Cash	$ 91,567	$ -	$ -	$ 91,567	$ -	$ -	$ -	$ 91,567
Effective interest rate	3.61%	-	-	3.61%	-	-	-	3.61%
Securities and interest-bearing deposits with financial institutions	3,068,292	107,534	5,922	3,181,748	-	-	-	3,181,748
Effective interest rate	3.92%	3.33%	3.65%	3.90%	-	-	-	3.90%
Loans	11,755,131	521,799	779,005	13,055,935	6,456,365	77,505	(146,288)	19,443,517
Effective interest rate	5.72%	5.47%	5.71%	5.71%	5.67%	6.22%	-	5.74%
Other	-	-	-	-	-	-	626,321	626,321
	14,914,990	629,333	784,927	16,329,250	6,456,365	77,505	480,033	23,343,153
Liabilities and Equity								
Deposits	14,404,815	866,853	1,502,663	16,774,331	4,401,385	-	-	21,175,716
Effective interest rate	2.37%	3.99%	3.93%	2.59%	4.16%	-	-	2.92%
Other liabilities and equity	-	-	-	-	-	-	2,094,439	2,094,439
Subordinated debentures	-	-	-	-	-	-	72,998	72,998
Effective interest rate	-	-	-	-	-	-	4.29%	4.29%
	14,404,815	866,853	1,502,663	16,774,331	4,401,385	-	2,167,437	23,343,153
On-balance sheet gap	510,175	(237,520)	(717,736)	(445,081)	2,054,980	77,505	(1,687,404)	-
Derivatives used for asset/liability gap management (notional amounts)								
Pay side swaps	(2,250,000)	-	-	(2,250,000)	(400,000)	-	-	(2,650,000)
Effective interest rate	4.09%	-	-	4.09%	3.82%	-	-	-
Receive side swaps	750,000	50,000	250,000	1,050,000	1,600,000	-	-	2,650,000
Effective interest rate	4.22%	5.00%	4.25%	4.26%	4.23%	-	-	-
Off-balance sheet gap	(1,500,000)	50,000	250,000	(1,200,000)	1,200,000	-	-	-
Net gap	$ (989,825)	$ (187,520)	$ (467,736)	$ (1,645,081)	$ 3,254,980	$ 77,505	$ (1,687,404)	$ -
As percentage of assets	(4.24%)	(0.80%)	(2.00%)	(7.05%)	13.94%	0.33%	(7.23%)	-
2007								
Assets	$ 12,736,293	$ 423,209	$ 811,232	$ 13,970,734	$ 5,839,139	$ 65,231	$ 419,614	$ 20,294,718
Liabilities and equity	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)	-
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 percentage of assets	(7.18%)	(0.91%)	4.91%	(3.18%)	10.85%	0.32%	(7.99%)	-

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, life-insurance brokerage 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.

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 statements, with the exception of financial instruments and Accounting Guideline 4 related adjustments, which are recorded at the other-business-unit (corporate) level only. As these lines of business are based on ATB's internal management structure, they may not be comparable to those of other financial institutions.

($ thousands)

	Personal and Business	Corporate	Investor Services	Other business units [1]	Total
2008					
Net interest income	$ 466,865	$ 78,218	$ 6,814	$ 107,513	$ 659,410
Other income	126,823	19,940	39,023	209	185,995
Provision for loss on ABCP	-	-	-	(253,133)	(253,133)
Total operating revenue	593,688	98,158	45,837	(145,411)	592,272
Provision for (recovery of) credit losses	18,235	(339)	-	(4,990)	12,906
Non-interest expenses	431,047	26,956	43,462	47,916	549,381
Net income (loss)	$ 144,406	$ 71,541	$ 2,375	$ (188,337)	$ 29,985
Total assets	$ 15,698,335	$ 4,060,638	$ 4,078	$ 3,580,102	$ 23,343,153
Total liabilities	$ 14,776,994	$ 2,153,106	$ 548,877	$ 4,195,724	$ 21,674,701
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 revenue	542,638	77,416	34,096	97,316	751,466
(Recovery of) provision for 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 revenue	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

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.
2) During the prior year, assts with a carrying value of $252.1 were transferred to Corporate Financial Services from personal Business Financial Services.

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 that external revenues exceed internal FTP expense, and liabilities "earn" NII to the extent that internal FTP revenues exceed external interest expense. Specific provisions for credit losses are allocated based on the individual underlying impaired-loan balances, and general provisions (excepting any special general provisions) are allocated pro rata based on total performing loan balances.

Direct expenses are attributed between lines as incurred. Certain indirect expenses are allocated between Investor Services and the other lines on the basis of inter-line service agreements. Certain other costs are allocated between the reporting segments using refined methods of allocating certain costs between the reporting segments, incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are 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, 2009:

Capital Disclosures

In December 2006, the Canadian Institute of Chartered Accountants ("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.

Goodwill and Intangible Assets

In February 2008, the CICA issued another new accounting standard that will take effect for ATB beginning April 1, 2009: CICA Handbook Section 3064, Goodwill and Intangible Assets. This standard will replace Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This standard will establish the standard for the recognition, measurement, and disclosure of goodwill and intangible assets. The impact of this new standard will be reflected in our financial statements for the quarter ending June 30, 2009.

NOTE 22 SUBSEQUENT EVENTS

Subsequent to year-end, ATB obtained the necessary approvals from the Government of Alberta allowing ATB to participate in MAV1 of the Montreal Accord. On April 25, 2008, investors in the Montreal Accord voted in favour of the restructuring under the Companies Creditors Arrangement Act (Canada). The next step in the restructuring process is the court judgment on the fairness of the restructuring plan.

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

March 31, 2008

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, 2008, and the statements of retained earnings, operations and comprehensive income 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, 2008, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 26, 2008

Balance Sheet

As at March 31, 2008

	2008	2007
ASSETS		
Current assets		
Cash	$ 2,155,555	$ 1,148,221
Accounts receivable	3,153,554	2,877,219
Prepaid expenses	21,297	40,652
	5,330,406	4,066,092
Capital assets (note 5)	1,426,084	852,777
	$ 6,756,490	$ 4,918,869
LIABILITIES		
Current liabilities		
Accrued liabilities	$ 1,742,472	$ 1,683,448
Due to affiliates (note 6)	1,055,397	1,504,916
Due to ATBF (note 7)	1,107,751	938,783
Current portion of deferred variable pay	9,909	-
	3,915,529	4,127,147
Deferred variable pay	54,034	-
	3,969,563	4,127,147
SHAREHOLDER'S EQUITY		
Share capital (note 8)	5,000	5,000
Retained earnings	2,781,927	786,722
	2,786,927	791,722
	$ 6,756,490	$ 4,918,869

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

Approved by the Board of Directors

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Retained Earnings

For the year ended March 31, 2008

	2008	2007
Balance - Beginning of year	$ 786,722	$ 1,636,671
Net income for the year	6,995,205	4,650,051
Dividends paid	(5,000,000)	(5,500,000)
Balance - End of year	$ 2,781,927	$ 786,722

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

Statement of Operations and Comprehensive Income

For the year ended March 31, 2008

	2008	2007
Revenue (note 10)		
Investment management fees	$ 24,874,451	$ 18,521,702
Other revenue	2,404,629	1,510,925
Interest revenue	45,142	83,537
	27,324,222	20,116,164
Administration and Selling expenses (note 10)		
Trailing commission	10,560,579	7,977,767
Professional fees	6,033,039	4,446,816
Salaries and employee benefits	2,395,533	1,962,815
Other expenses	1,319,902	1,062,186
Interest expense	19,964	16,529
	20,329,017	15,466,113
Net income and comprehensive income for the year	$ 6,995,205	$ 4,650,051

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

Statement of Cash Flows

For the year ended March 31, 2008

Cash provided for (used in)	2008	2007
Operating activities		
Net income for the year	$ 6,995,205	$ 4,650,051
Items not affecting cash		
Amortization of capital assets	138,005	5,022
Amortization of deferred charges	-	11,645
	7,133,210	4,666,718
Net change in non-cash working capital items		
Increase in accounts receivable	(276,335)	(1,099,153)
Decrease(increase) in prepaid expenses	19,355	(22,568)
Increase in accrued liabilities	59,024	339,603
(Decrease) increase in due to affiliates	(449,519)	811,670
Increase in deferred variable pay	63,943	-
	6,549,678	4,696,270
Investing activities		
Purchase of capital assets	(711,312)	(573,432)
Financing activities		
Dividends paid	(5,000,000)	(5,500,000)
Increase in due to ATB	168,968	289,760
	(4,831,032)	(5,210,240)
Net change in cash	1,007,334	(1,087,402)
Cash - Beginning of year	1,148,221	2,235,623
Cash - End of year	$ 2,155,555	$ 1,148,221
Supplementary information		
Interest paid	$ 16,529	$ 16,529
Interest received	$ 83,537	$ 57,672

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

Notes to the Financial Statements

March 31, 2008

NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Management Inc. ("ATBIM") is a wholly owned subsidiary of ATB Financial ("ATBF") established for the purpose of managing a family of ATBF ("Compass") mutual fund portfolios and providing portfolio management services to high net worth clientele. The continuing operations of ATBIM are dependent upon ATBF's ongoing financial support. ATBIM was incorporated under the Business Corporations Act (Alberta) on August 21, 2002. As a provincial corporation, ATBIM is exempt from income tax. ATBIM is registered with the Alberta Securities Commission ("ASC").

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. When necessary, comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below:

a) MEASUREMENT UNCERTAINTY

In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates.

b) REVENUE RECOGNITION

Investment management fees are based on net asset values of the Compass mutual fund portfolios and are recognized on an accrual basis. Interest revenue includes interest earned on cash deposits with ATBF and is recorded on an accrual basis. Client fees and other revenue include fees earned from clients for management of their accounts.

c) CASH

Cash consists of cash on deposit with ATBF.

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) 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 $42,923 (2007 - $76,272) 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 ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

ATBIM adopted the new recommendations issued by the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, Section 1506, Accounting changes, and Section 3865, Hedges. The new standards require presentation of a separate statement of comprehensive income under specific circumstances. Under the new standards, unrealized gains and losses on financial assets that are held as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments are recorded in a Statement of Other Comprehensive Income until recognized in the Statement of Operations. Other Comprehensive Income will form part of shareholders' equity. Also under the new standards, derivative financial instruments are recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income.

a) FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

On April 1, 2007, ATBIM adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement". It contains the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. ATBIM has made the following classifications:

- Cash is classified as financial assets held for trading and measured at fair value.
- Accounts receivable is classified as loans and receivables and is initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.
- Accrued liabilities, due to ATBF and due to affiliates are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs are expensed as incurred.

The adoption of this section is applied retrospectively without restatement of the financial statements of prior periods. ATBIM has assessed that there is no impact on the opening balance sheet from these classifications. Material contracts entered by ATBIM since the company's inception have been assessed for embedded derivatives. ATBIM does not have any embedded derivatives.

b) EQUITY AND COMPREHENSIVE INCOME

On April 1, 2007, ATBIM adopted Section 3251 of the CICA Handbook, "Equity", replacing Section 3250 "Surplus". It describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530 "Comprehensive Income". The adoption of this Section had no impact on ATBIM, as there have been no transactions resulting in comprehensive income.

On April 1, 2007 ATBIM adopted Section 1530 of the CICA Handbook, "Comprehensive Income". It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than ATBIM's shareholder. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments. The adoption of this section has no impact on ATBIM, as there have been no transactions resulting in other comprehensive income.

Note 2 (continued)

c) HEDGES

On April 1, 2007, ATBIM adopted Section 3865 of the CICA Handbook, "Hedges". The Recommendations of this Section expand the guidelines required by Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from derivative financial instruments in the same period as for those related to the hedged item. The adoption of this Section has no impact on ATBIM as the company does not enter into hedging transactions.

d) FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

Effective April 1, 2007, ATBIM adopted CICA Handbook Section 3861, "Financial Instruments—Disclosure and Presentation", which requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position, performance and cash flows. Also this section enables users through disclosure to evaluate the nature and extent of financial instruments, the business purposes they serve and the risks associated with the instruments and management policies for mitigating and managing those risks. These additional disclosures are included in Note 11.

e) ACCOUNTING CHANGES

In July 2006, the CICA issued the new handbook Section 1506, "Accounting Changes," effective for annual and interim periods beginning on or after January 1, 2007. This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an annual basis, a description and the impact on ATBIM of any new primary source of GAAP that has been issued but is not yet effective. This new standard did not have a material effect on our financial position or results of operations. This standard applies to ATBIM's annual financial statements beginning April 1, 2007.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

a) FINANCIAL INSTRUMENTS – DISCLOSURE

In March 2007, the CICA issued Handbook Section 3862, "Financial Instruments—Disclosures", which complements CICA 3861 and provides expanded disclosure requirements that provide additional detail by financial assets and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards. ATBIM is in the process of assessing the impact of adopting these new standards. This standard applies to the annual financial statements beginning April 1, 2008.

b) FINANCIAL INSTRUMENTS – PRESENTATION

In March 2007, the CICA also issued Handbook Section 3863, "Financial Instruments—Presentation" to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, gains and losses, and the circumstances in which financial assets and financial liabilities are offset. This standard harmonizes disclosures with International Financial Reporting Standards. ATBIM is in the process of assessing the impact of adopting this new standard. This standard applies to the annual financial statements beginning April 1, 2008.

Note 4 (continued)

c) CAPITAL DISCLOSURES

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures", effective for annual periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate ATBIM's objectives, policies, and processes for managing capital. This standard applies to ATBIM's annual financial statements beginning April 1, 2008.

NOTE 5 CAPITAL ASSETS

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Computer software	$ 878,958	$ (138,005)	$ 740,953	$ 16,500
System development costs	685,131	-	685,131	836,277
	$ 1,564,089	$ (138,005)	$ 1,426,084	$ 852,777

All completed system development projects completed are transferred to computer software. During the year $857,437 (2007 - $21,521) in completed costs were transferred.

NOTE 6 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBIM pays trailing commissions to ATB Investment Services Inc. ("ATBIS") and ATB Securities Inc. ("ATBSI"). ATBSI collects client fees on behalf of ATBIM. ATBIS, ATBSI and ATB Insurance Advisors Inc. ("ATBIA") may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBIS, ATBSI and ATBIA. These amounts are duly recorded as payable and receivable in the respective accounts of each of ATBIM, ATBIS, ATBSI and ATBIA. The amounts due (to) from ATBIS, ATBSI and ATBIA 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:

	2008	2007
Due to ATBIS	$ 365,863	$ 864,905
Due to ATBSI	689,513	640,011
Due to ATBIA	21	-
	$ 1,055,397	$ 1,504,916

NOTE 7 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses on behalf of ATBIM. The amounts due to and due from ATBF are generally settled in the following month. The amounts due to ATBF arising from these transactions as at March 31 are as follows:

	2008	2007
Due to ATBF	$ 1,107,751	$ 938,783

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2008 was 5.25% (2007 – 6.00%).

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

	2008	2007
100 Class A common shares	$ 5,000	$ 5,000

NOTE 9 EMPLOYEE FUTURE BENEFITS

ATBIM provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Income. For the year ended March 31, 2008, expenses related to defined contribution provisions were $128,943 (2007 - $150,787).

NOTE 10 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBF charges ATBIM for certain administrative and selling services as well as charging interest on subordinated notes and amounts owing to ATBF. In addition, ATBSI charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATBSI and ATBIS charge trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATBF allocates costs for employees of ATBF providing services to ATBIM.

The summary of these transactions is as follows:

Related party	Transactions	Recorded as	2008	2007
	Revenue			
ATBF	Interest income	Interest revenue	$ 45,142	$ 83,537
	Administrative and selling expenses			
ATBIS	Trailer fees	Trailing Commission	$ 4,095,484	$ 3,224,482
ATBSI	Trailer fees	Trailing Commission	6,465,094	4,753,285
ATBF	Administrative Services	Professional fees	60,841	56,191
ATBF	Information technology, rent and marketing	Other expenses	335,160	252,958
ATBSI	Client referral fees	Professional fees	1,008,739	661,940
ATBSI	Transaction fees	Other expenses	356,820	312,120
			$ 12,322,138	$ 9,260,976
	Interest expense			
ATBF	Interest expense on due to ATBF	Interest expense	$ 19,164	$ 16,529

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 11 FINANCIAL INSTRUMENTS

ATBIM's financial instruments consist of cash, accounts receivable, accrued liabilities, due to affiliate, due to ATBF and deferred variable pay.

a) FINANCIAL RISK MANAGEMENT

ATBIM's activities are exposed to a variety of financial risks: price risk, interest rate risk, currency risk, credit risk, liquidity risk and cash flow risk. ATBIM's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIM's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

b) FAIR VALUE

The fair value of cash, accounts receivable, accrued liabilities, due to affiliates and due to ATBF approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is estimated based on discounting future cash flows by a discount factor used for similar benefit plans.

c) PRICE RISK

There are three types of price risk: currency risk, interest rate risk and market risk.

Currency risk: Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBIS does not have any amounts of financial instruments denominated in foreign currencies.

Interest rate risk: The amount due to ATBF is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

Market risk: ATBIM's exposure to financial market risk is limited since there are no significant financial instruments held by the company, which will fluctuate as a result of changes in market prices.

d) CREDIT RISK

ATBIM is exposed to credit risk through its cash and accounts receivable. ATBIM has deposited the cash with a reputable financial institution, from which management believes the risk of loss to be remote. The risk inherent to accounts receivable is effectively mitigated by ATBIM's diverse customer and trading counterparty base.

e) LIQUIDITY RISK

Liquidity risk management requires maintaining sufficient cash and cash equivalents and the availability of funding through ATBIM's parent company.

f) CASH FLOW RISK

As ATBIM has no significant interest bearing assets, ATBIM's income and operating cash flows are substantially independent of changes in market interest rates.

ATB INVESTMENT SERVICES INC.

Financial Statements

March 31, 2008

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, 2008, and the statements of deficit, operations and comprehensive loss 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, 2008, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 26, 2008

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

Balance Sheet

As at March 31, 2008

	2008	2007 restated (note 3)
ASSETS		
Current assets		
Cash	$ 1,904,659	$ 1,569,109
Short term investments	7,131,216	2,834,668
Clients' cash held in trust	4,778,829	5,827,570
Due from affiliates (note 6)	131,850	615,179
Due from clients	25,395	93,140
Trailer fees receivable (note 6)	399,059	761,817
Prepaid expenses	78,698	81,056
	14,449,706	11,782,539
Capital assets (note 7)	1,357,258	1,206,910
	$ 15,806,964	$ 12,989,449
LIABILITIES		
Current liabilities		
Due to clients	$ 3,620,195	$ 3,476,202
Due to brokers and dealers	990,669	2,286,403
Accrued liabilities	638,980	573,338
Variable compensation payable	416,734	858,456
Due to ATBF (note 8)	875,654	191,363
Unearned revenue	306,914	240,369
Current portion of deferred variable pay	55,489	-
	6,904,634	7,626,131
Deferred variable pay	127,983	106,337
	7,032,617	7,732,468
SHAREHOLDER'S EQUITY		
Share capital (note 9)	40,245,000	33,745,000
Deficit	(31,470,653)	(28,488,019)
	8,774,347	5,256,981
	$ 15,806,964	$ 12,989,449

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

Approved by the Board of Directors

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Deficit

For the year ended March 31, 2008

	2008	2007 restated (note 3)
Balance - Beginning of year	$ 28,636,273	$ 23,678,667
Prior period adjustment (note 3)	(148,254)	-
Balance - Beginning of year (as restated)	28,488,019	23,678,667
Net loss for the year	2,982,634	4,809,352
Balance - End of year	$ 31,470,653	$ 28,488,019

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2008

	2008	2007 restated (note 3)
Revenue (note 11)		
Commission	$ 4,786,184	$ 3,975,057
Deposit instruments	3,230,692	2,292,056
Client fees	503,006	391,429
Interest	216,282	181,256
Other	-	388
	8,736,165	6,840,186
Administration and Selling expenses (note 11)		
Salaries and employee benefits	5,037,100	5,580,816
Processing, selling and premises rental	3,177,915	2,768,777
Other expenses	1,948,789	1,542,277
Variable compensation	630,868	1,066,339
Professional and training	908,807	650,156
Interest expense	15,319	41,173
	11,718,799	11,649,538
Net loss and comprehensive loss for the year	$ 2,982,634	$ 4,809,352

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

Statement of Cash Flows

For the year ended March 31, 2008

	2008	2007
Cash Provided for (used in)		**restated (note 3)**
Operating activities		
Net loss for the year	$ (2,982,634)	$ (4,809,352)
Items not affecting cash		
Amortization of capital assets	189,616	10,428
	(2,793,018)	(4,798,924)
Net change in non-cash working capital items		
Decrease (increase) in prepaid expenses	2,359	11,072
Cash (paid to) received from clients and brokers/dealers	(35,255)	(37,439)
Decrease (increase) in due from affiliates	483,329	(400,802)
Decrease (increase) in trailer fees receivable	362,758	(443,611)
Increase (decrease) in variable compensation payable	(441,722)	5,811
Increase (decrease) in accrued liabilities	65,642	269,521
Increase in unearned revenue	66,545	63,684
Increase in deferred variable pay	77,134	106,337
	(2,212,229)	(5,224,351)
Investing activities		
Purchase of short term investments (net)	(4,296,548)	(2,834,668)
Purchase of capital assets	(339,964)	(751,910)
	(4,636,512)	(3,586,578)
Financing activities		
Issuance of share capital	6,500,000	5,745,000
Increase (decrease) in due to ATBF	684,291	(248,999)
	7,184,291	5,496,001
Net change in cash	335,550	(3,314,928)
Cash- Beginning of year	1,569,109	4,884,037
Cash - End of year	$ 1,904,659	$ 1,569,109
Supplementary information		
Interest paid	$ 15,319	$ 165,363
Interest received	$ 216,282	$ 181,256

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

Notes to the Financial Statements

March 31, 2008

NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Services Inc. ("ATBIS") is a wholly owned subsidiary of ATB Financial ("ATBF") established for the purpose of distributing mutual funds to customers of ATBF. The continuing operations of ATBIS are dependent upon ATBF'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 from 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. When necessary, 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 11) 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, trailer fee revenue that is recognized on an accrual basis as these fees are earned and Insurance referrals paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate.

Deposit instruments revenue includes Guaranteed Investment Certificate ("GIC") referral revenue, which is paid by ATBF 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 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 annual RRSP administration fees on client accounts that are amortized into income over the calendar year.

c) CASH

Cash consists of cash on deposit with ATBF.

d) SHORT TERM INVESTMENTS

Short term investments consist of investments in the ATB Money Market Fund and are valued at fair market 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 ATBF for the settlement of mutual fund transactions. The corresponding liabilities are included in due to clients and due to brokers and dealers. Client balances are reported on a trade-date basis.

Note 2 (continued)

f) 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.

g) 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 PRIOR PERIOD ADJUSTMENT

In 2007, management over-accrued for the variable component of the defined contribution pension plan. The amount that was over-accrued by ATBIS at March 31, 2007 was $148,254. ATBIS has restated the 2007 comparatives to reflect this adjustment, which resulted in a decrease to accrued liabilities, salaries and benefits and net loss in the amount of $148,254 for the year ended March 31, 2007, and a decrease in opening deficit of $148,254 for the year ended March 31, 2008.

NOTE 4 ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

ATBIS adopted the new recommendations issued by the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 1530 - Comprehensive Income, Section 3855 - Financial Instruments – Recognition and Measurement, Section 3865 - Hedges and Section 1506 - Accounting changes. The new standards require presentation of a separate statement of comprehensive income under specific circumstances. Under the new standards, unrealized gains and losses on financial assets that are held as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments are recorded in a Statement of Other Comprehensive Income until recognized in the Statement of Operations. Other Comprehensive Income will form part of shareholders' equity. Also under the new standards, derivative financial instruments are recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income.

a) FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

On April 1, 2007, ATBIS adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement". It contains the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. ATBIS has made the following classifications:

- Cash, short term investments and clients cash held in trust are classified as financial assets held for trading and measured at fair value.
- Due from clients, trailer fees receivable and due from affiliates are classified as loans and receivables and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.
- Due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATBF and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

Note 4 (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs are expensed as incurred.

The adoption of this section is applied retrospectively without restatement of the financial statements of prior periods. ATBIS has assessed that there is no impact on the opening balance sheet from these classifications. Material contracts entered by ATBIS since the company's inception have been assessed for embedded derivatives. ATBIS does not have any embedded derivatives.

b) EQUITY AND COMPREHENSIVE INCOME

On April 1, 2007, ATBIS adopted Section 3251 of the CICA Handbook, “Equity”, replacing Section 3250 “Surplus”. It describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530 “Comprehensive Income”. The adoption of this Section had no impact on ATBIS, as there have been no transactions resulting in comprehensive income.

On April 1, 2007 ATBIS adopted Section 1530 of the CICA Handbook, “Comprehensive Income”. It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders’ equity, which results from transactions and events from sources other than ATBIS’s shareholder. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments. The adoption of this section had no impact on ATBIS, as there have been no transactions resulting in other comprehensive income.

c) HEDGES

On April 1, 2007, ATBIS adopted Section 3865 of the CICA Handbook, “Hedges”. The Recommendations of this Section expand the guidelines required by Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from derivative financial instruments in the same period as for those related to the hedged item. The adoption of this Section has no impact on ATBIS as the company does not enter into hedging transactions.

d) FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

Effective April 1, 2007, ATBIS adopted CICA Handbook Section 3861, “Financial Instruments—Disclosure and Presentation”, which requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position, performance and cash flows. Also this section enables users through disclosure to evaluate the nature and extent of financial instruments, the business purposes they serve and the risks associated with the instruments and management policies for mitigating and managing those risks. These additional disclosures have been included in Note 12.

e) ACCOUNTING CHANGES

In July 2006, the CICA issued the new handbook Section 1506, “Accounting Changes,” effective for annual and interim periods beginning on or after January 1, 2007. This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an annual basis, a description and the impact on ATBIS of any new primary source of GAAP that has been issued but is not yet effective. This new standard did not have a material effect on our financial position or results of operations. This standard applies to ATBIS’s annual financial statements beginning April 1, 2007.

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

a) FINANCIAL INSTRUMENTS – DISCLOSURE

In March 2007, the CICA issued Handbook Section 3862, "Financial Instruments—Disclosures", which complements CICA 3861 and provides expanded disclosure requirements that provide additional detail by financial assets and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards. ATBIS is in the process of assessing the impact of adopting these new standards. This standard applies to the annual financial statements beginning April 1, 2008.

b) FINANCIAL INSTRUMENTS – PRESENTATION

In March 2007, the CICA also issued Handbook Section 3863, "Financial Instruments—Presentation" to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, gains and losses, and the circumstances in which financial assets and financial liabilities are offset. This standard harmonizes disclosures with International Financial Reporting Standards. ATBIS is in the process of assessing the impact of adopting this new standard. This standard applies to the annual financial statements beginning April 1, 2008.

c) CAPITAL DISCLOSURES

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate ATBIS's objectives, policies, and processes for managing capital. This standard applies to ATBIS's annual financial statements beginning April 1, 2008.

NOTE 6 DUE FROM AFFILIATES

In the normal course of operations, ATBIS receives trailing commissions and service fees from ATB Investment Management Inc. ("ATBIM") and collects client management fees on behalf of ATBIM. ATBIM, ATB Securities Inc. ("ATBSI") and ATBIA may pay for certain expenses on behalf of ATBIS. Alternatively, ATBIS may pay for certain expenses on behalf of ATBIM, ATBSI and ATBIA. These amounts are duly recorded, as payables and receivables, in each of ATBSI's, ATBIM's, ATBIS's and ATBIA's accounts. The amounts due (to)/from affiliates arising from these transactions 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:

	2008	2007
Due from ATBIM	$ 34,119	$ 187,349
Due from ATBSI	91,917	417,636
Due from ATBIA	5,814	10,194
	$ 131,850	$ 615,179

Also, included in Trailer fees receivable is $331,743 (2007 - $677,556) from ATBIM, which has been reclassified in the comparatives for presentation purposes.

NOTE 7 CAPITAL ASSETS

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Computer software	$ 1,178,841	$ (189,616)	$ 989,225	$ 34,264
System development costs	368,033	-	368,033	1,172,646
	$ 1,546,874	$ (189,616)	$ 1,357,258	$ 1,206,910

All completed system development projects completed are transferred to computer software. During the year $1,134,149 (2007 - $44,962) in completed costs were transferred.

NOTE 8 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses and collects certain revenues on behalf of ATBIS. The amounts due to ATBF are generally settled in the following month. The amounts due to ATBF as at March 31 arising from these transactions are as follows:

	2008	2007
Due to ATBF	$ 875,654	$ 191,363

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2008 was 5.25% (2007 – 6.00%).

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

	2008	2007
Class A common shares	$ 40,244,100	$ 33,744,100
Amount	$ 40,245,000	$ 33,745,000

NOTE 10 EMPLOYEE FUTURE BENEFITS

ATBIS provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Loss. For the year ended March 31, 2008, expenses related to defined contribution provisions were $181,716 (2007: $402,642).

NOTE 11 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBIS earns revenue in the form of trailer fees and interest and other income from ATBF, ATBIM and ATBIA. ATBF also charges ATBIS for administrative and selling services, as well as charging interest on amounts owing to ATBF. ATBIS recovers from ATBF certain administrative, processing and selling costs.

The summary of these transactions for the years ended March 31 is as follows:

Related party	Transactions	Recorded as	2008	2007
	Revenue			
ATBIM	Trailer fees	Commission	$ 4,095,484	$ 3,224,482
ATBF	Interest revenue	Interest	19,733	146,588
ATBF	Transaction fees	Deposit Instruments	3,230,692	2,292,056
			$ 7,345,909	$ 5,663,126
	Administration and selling expenses			
ATBF	Processing	Processing, selling and premises rental	$ 3,165,749	$ 2,653,569
ATBF	Selling	Processing, selling and premises rental	228,236	249,303
ATBF	Premises and equipment rental	Processing, selling and premises rental	497,340	436,668
ATBF	Administrative services	Professional and training	321,491	325,194
ATBF	Information Technology and Marketing	Other expenses	919,189	832,044
			$ 5,132,005	$ 4,496,778
ATBF	Salaries (recoveries)	Processing, selling and premises rental	$ (239,551)	$ (250,779)
ATBF	Processing (recoveries)	Processing, selling and premises rental	(500,697)	(434,095)
ATBF	Training (recoveries)	Professional and training	(42,601)	(61,931)
ATBF	Compliance (recoveries)	Administration and selling expenses	(701,284)	(539,849)
ATBIM	Compass service fee recovery	Professional and training	(15,165)	(14,265)
			$ (1,499,298)	$ (1,300,919)
	Interest expense			
ATBF	Other interest expense	Interest expense	$ 15,319	$ 41,173

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 12 FINANCIAL INSTRUMENTS

ATBIS's financial instruments consist of cash, short term investments, clients' cash held in trust, due from affiliates, due (to) from clients, trailer fees receivable, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATBF and deferred variable pay.

a) FINANCIAL RISK MANAGEMENT

ATBIS's activities are exposed to a variety of financial risks: price risk, credit risk, liquidity risk and cash flow risk. ATBIS's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIS's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

b) FAIR VALUE

The fair value of cash, short term investments, clients' cash held in trust, due from (to) clients, due to brokers and dealers, trailer fees receivable, due from affiliates, accrued liabilities, variable compensation payable and amounts due to ATBF approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is estimated based on discounting future cash flows by a discount factor used for similar benefit plans.

c) PRICE RISK

There are three types of price risk: currency risk, interest rate risk and market risk.

Currency risk: Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBIS does not have any financial instruments denominated in foreign currencies.

Interest rate risk: ATBIS's due to ATBF balance is subject to interest rate fluctuation and the degree of volatility in these rates. ATBIS does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

Market risk: ATBIS's exposure to financial market risk is limited since there are no significant financial instruments, which will fluctuate as a result of changes in market prices.

d) CREDIT RISK

ATBIS is exposed to credit risk through its cash, short term investments and trailer fees receivable. ATBIS has deposited the cash with reputable financial institutions, from which management believes the risk of loss to be remote. ATBIS's short term investment (ATB Money Market Fund), invests in high quality money market securities. Management believes the risk of loss on the short term investment to be remote. ATBIS has accounts receivable from customers in the mutual fund industry and risk is mitigated due to ATBIS's diverse customer base.

e) LIQUIDITY RISK

Liquidity risk management requires maintaining sufficient cash and short term investments and the availability of funding through ATBIS's parent company, ATBF.

f) CASH FLOW RISK

As ATBIS has short term investments in the ATB Money Market fund. The ATB Money Market fund distributes interest income on a monthly basis dependent on prevailing interest rates. ATBIS's income and operating cash flows are substantially independent of changes in market interest rates.

ATB SECURITIES INC.

Financial Statements

March 31, 2008

AUDITOR'S REPORT

To the Board of Directors of ATB Securities Inc.

I have audited the Balance Sheet of ATB Secutires Inc as at March 31, 2008, and the statements of deficit, operations and comprehensive loss 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, 2008, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 26, 2008

Balance Sheet

As at March 31, 2008

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 27,254,194	$ 22,397,230
Clients' cash held in trust	14,103,871	7,659,356
Due from clients	4,054,743	2,455,191
Due from brokers and dealers	95,521	325,448
Client fees receivable	1,062,214	971,467
Trailer fees receivable	412,360	373,562
Due from affiliates (note 5)	704,715	641,284
Prepaid expenses	100,107	67,475
	47,787,725	34,891,013
Capital assets (note 6)	2,219,456	1,586,354
	$ 50,007,181	$ 36,477,367
LIABILITIES		
Current liabilities		
Due to clients	$ 34,676,106	$ 14,979,852
Due to brokers and dealers	2,232,099	9,492,225
Accrued liabilities	1,705,841	1,888,212
Variable compensation payable	311,541	491,357
Due to ATBF (note 7)	1,720,635	1,805,971
Due to affiliates (note 5)	91,917	417,636
Unearned revenue	37,712	41,225
Current portion of deferred variable pay	103,711	-
	40,879,562	29,116,478
Deferred variable pay	211,519	186,232
	41,091,081	29,302,710
SHAREHOLDER'S EQUITY		
Share capital (note 8)	24,000,000	21,500,000
Deficit	(15,083,900)	(14,325,343)
	8,916,100	7,174,657
	$ 50,007,181	$ 36,477,367

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

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Deficit

For the year ended March 31, 2008

	2008	2007
Balance - Beginning of year	$ 14,325,343	$ 12,512,413
Net loss for the year	758,557	1,812,930
Balance - End of year	$ 15,083,900	$ 14,325,343

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2008

	2008	2007
Revenue (note 10)		
Mutual fund commissions	$ 10,747,900	$ 8,418,687
Securities commissions	2,930,849	2,422,435
Client fees	4,443,095	3,250,705
Interest revenue	1,137,258	944,660
Client referral fees	1,434,658	974,060
Other revenue	199,644	81,512
	20,893,404	16,092,059
Administration and Selling expenses (note 10)		
Variable compensation expense	8,054,456	7,013,328
Salaries and employee benefits	6,131,003	5,169,978
Processing fees	2,869,932	2,179,625
Other expenses	3,026,604	2,167,390
Professional fees	1,545,008	1,342,955
Other interest expense	24,958	31,713
	21,651,961	17,904,989
Net loss and comprehensive loss for the year	$ 758,557	$ 1,812,930

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

ATB Securities Inc.

Statement of Cash Flows

For the year ended March 31, 2008

Cash provided from (used in)	2008	2007
Operating activities		
Net loss for the year	$ (758,557)	$ (1,812,930)
Items not affecting cash		
Amortization of capital assets	244,548	6,635
	(514,009)	(1,806,295)
Net change in non-cash working capital items		
(Increase) in prepaid expenses	(32,632)	(34,548)
Cash (paid to) received from clients and brokers/dealers	4,621,988	8,289,650
(Increase) in client fees receivable	(90,747)	(424,567)
(Increase) in trailer fees receivable	(38,798)	(107,998)
Net Increase (decrease) in due to/(from) affiliates	(389,150)	18,675
Increase (decrease) in accrued liabilities	(182,371)	760,458
(Decrease) in variable compensation payable	(179,816)	(209,294)
Increase (Decrease) in unearned revenue	(3,513)	6,802
Increase in deferred variable pay	128,998	186,232
	3,319,950	6,679,115
Investing activities		
Purchase of capital assets	(877,650)	(1,130,118)
Financing activities		
Issuance of share capital	2,500,000	4,000,000
Increase (decrease) in due to ATBF	(85,336)	906,770
	2,414,664	4,906,770
Net change in cash	4,856,964	10,455,767
Cash and cash equivalents - Beginning of year	22,397,230	11,941,463
Cash and cash equivalents - End of year	$ 27,254,194	$ 22,397,230
Represented by		
Cash	$ 27,177,906	$ 22,292,370
Bankers' acceptances	76,288	-
	$ 27,254,194	$ 22,292,370
Supplementary information		
Interest paid	$ 24,711	$ 115,815
Interest received	$ 860,760	$ 944,660

Notes to the Financial Statements

March 31, 2008

NOTE 1 INCORPORATION AND OPERATIONS

ATB Securities Inc. ("ATBSI") is a wholly owned subsidiary of ATB Financial ("ATBF") established to facilitate client trading of securities. The continuing operations of ATBSI are dependent upon ATBF's ongoing financial support. ATBSI was incorporated in Alberta under the Business Corporations Act (Alberta) on February 6, 2003. ATBSI commenced operations on July 26, 2003. As a provincial corporation, ATBSI is exempt from income tax. ATBSI 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. When necessary, 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

ATBSI earns its revenue from third party clients and affiliates (note 9). Commission revenue earned on mutual fund sales and securities transactions is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Other revenue is recorded on an accrual basis and includes client fees, Registered Retirement Savings Plan ("RRSP") administration fees, Guaranteed Investment Certificate ("GIC") referral revenue, interest income, client referral fee income, and client transaction fee income. GIC referral fees are paid by ATBF to ATBSI based on the imputed profit earned on the GIC's. Insurance referral fees are paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate, to ATBSI based on referrals that create insurance product sales. Client referral fees are paid by ATB Investment Management Inc. ("ATBIM"), an affiliate, to ATBSI based on actual commissions paid to ATBSI sales staff. Transaction fees are paid by ATBIM to ATBSI based on fair market values of client trade processing.

Unearned revenue relates to annual RRSP administration fees on client accounts that are amortized into income over the calendar year.

c) CASH AND CASH EQUIVALENTS

Cash consists of cash on deposit held with ATBF and highly liquid short-term investments.

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.

Note 2 (continued)

e) 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.

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 ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

ATBSI adopted the new recommendations issued by the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, Section 1506, Accounting changes, and Section 3865, Hedges. The new standards require presentation of a separate statement of comprehensive income under specific circumstances. Under the new standards, unrealized gains and losses on financial assets that are held as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments are recorded in a Statement of Other Comprehensive Income until recognized in the Statement of Operations. Other Comprehensive Income will form part of shareholders' equity. Also under the new standards, derivative financial instruments are recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income.

a) FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

On April 1, 2007, ATBSI adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement". It contains the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. ATBSI has made the following classifications:

- Cash and cash equivalents and Clients cash held in trust are classified as financial assets held for trading and measured at fair value.

- Due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable and due from affiliates are classified as loans and receivables and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

Note 3 (continued)

- Due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATBF, due to affiliates, and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs are expensed as incurred.

The adoption of this Section is applied retrospectively without restatement of the financial statements of prior periods. ATBSI has assessed that there is no impact on the opening balance sheet from these classifications. Material contracts entered by ATBSI since the company's inception have been assessed for embedded derivatives. ATBSI does not have any embedded derivatives.

b) EQUITY AND COMPREHENSIVE INCOME

On April 1, 2007, ATBSI adopted Section 3251 of the CICA Handbook, “Equity”, replacing Section 3250 “Surplus”. It describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530 “Comprehensive Income”. The adoption of this Section had no impact on ATBSI as there have been no transactions resulting in comprehensive income.

On April 1, 2007 ATBSI adopted Section 1530 of the CICA Handbook, “Comprehensive Income”. It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders’ equity, which results from transactions and events from sources other than ATBSI’s shareholder. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments. The adoption of this section had no impact on ATBSI, as there have been no transactions resulting in other comprehensive income.

c) HEDGES

On April 1, 2007, ATBSI adopted Section 3865 of the CICA Handbook, “Hedges”. The Recommendations of this Section expand the guidelines required by Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from derivative financial instruments in the same period as for those related to the hedged item. The adoption of this Section has no impact on ATBSI as long as the company does not enter into hedging transactions.

d) FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

Effective April 1, 2007, ATBSI adopted CICA Handbook Section 3861, “Financial Instruments—Disclosure and Presentation”, which requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position, performance and cash flows. Also this section enables users through disclosure to evaluate the nature and extent of financial instruments, the business purposes they serve and the risks associated with the instruments and management policies for mitigating and managing those risks. These additional disclosures are included in Note 11.

e) ACCOUNTING CHANGES

In July 2006, the CICA issued the new handbook Section 1506, “Accounting Changes,” effective for annual and interim periods beginning on or after January 1, 2007. This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an annual basis, a description and the impact on ATBSI of any new primary source of GAAP that has been issued but is not yet effective. This new standard did not have a material effect on our financial position or results of operations. This standard applies to ATBSI’s annual financial statements beginning April 1, 2007.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

a) FINANCIAL INSTRUMENTS – DISCLOSURE

In March 2007, the CICA issued Handbook Section 3862, "Financial Instruments—Disclosures", which complements CICA 3861 and provides expanded disclosure requirements that provide additional detail by financial assets and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards. ATBSI is in the process of assessing the impact of adopting these new standards. This standard applies to the annual financial statements beginning April 1, 2008.

b) FINANCIAL INSTRUMENTS – PRESENTATION

In March 2007, the CICA also issued Handbook Section 3863, "Financial Instruments—Presentation" to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, gains and losses, and the circumstances in which financial assets and financial liabilities are offset. This standard harmonizes disclosures with International Financial Reporting Standards. ATBSI is in the process of assessing the impact of adopting this new standard. This standard applies to the annual financial statements beginning April 1, 2008.

c) CAPITAL DISCLOSURES

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate ATBSI's objectives, policies, and processes for managing capital. This standard applies to ATBSI's annual financial statements beginning April 1, 2008.

NOTE 5 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBSI receives trailing commissions from ATBIM and collects client management fees on behalf of ATBIM. ATBIM, ATB Investment Services Inc. ("ATBIS") and ATBIA may pay for certain expenses on behalf of ATBSI. Alternatively, ATBSI may pay for certain expenses on behalf of ATBIM, ATBIS and ATBIA. These amounts are duly recorded, as payables and receivables, in each of ATBSI's, ATBIM's, ATBIS's and ATBIA's accounts. The amounts due (to)/from affiliates arising from these transactions 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:

	2008	2007
Due from ATBIM	$ 689,513	$ 640,011
Due from ATBIA	15,202	1,273
Due to ATBIS	(91,917)	(417,636)
	$ 612,798	$ 223,648

NOTE 6 CAPITAL ASSETS

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Computer software	$ 1,619,993	$ (251,183)	$ 1,368,810	$ 21,801
System development costs	850,646	-	850,646	1,564,553
	$ 2,470,639	$ (251,183)	$ 2,219,456	$ 1,586,354

NOTE 7 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses and collects certain revenues on behalf of ATBSI. These amounts are duly recorded, as payable and receivables, in both ATBF's and ATBSI' accounts. The amounts due to and due from ATBF are generally settled in the following month. The amounts due to and due from ATBF arising from these transactions as at March 31 are as follows:

	2008	2007
Due to ATBF	$ 1,720,635	$ 1,805,971

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2008 was 5.25% (2007 – 6.00%).

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

	2008	2007
Class A common shares	23,995,000	21,495,000
Amount	$ 24,000,000	$ 21,500,000

NOTE 9 EMPLOYEE FUTURE BENEFITS

ATBSI provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Loss. For the year ended March 31, 2008, expenses related to defined contribution provisions were $128,943 (2007 - $150,787).

NOTE 10 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBSI earns income in the form of trailer fees, and interest and other income from ATBF, ATBIA and ATBIM. ATBF also charges ATBSI for various administrative and selling services, as well as charging interest on subordinated notes and amounts owing to ATBF.

The summary of these transactions is as follows:

Related party	Transactions	Recorded as	2008	2007
	Revenue			
ATBIM	Trailer fees	Mutual fund commissions	$ 6,465,094	$ 4,753,285
ATBIM	Referral fees	Client referral fees	1,008,739	661,940
ATBIM	Transaction fees	Client referral fees	356,820	312,120
ATBIA	Insurance referrals	Client referral fees	69,099	-
ATBF	GIC referral fees	Securities commissions	2,177,943	1,626,035
ATBF	Interest income	Interest revenue	860,760	737,686
			$ 10,938,455	$ 8,091,066
	Administration and selling expenses			
ATBF	Processing	Processing fees	$ 2,869,932	$ 2,179,625
ATBF	Information technology, rent and marketing	Other expenses	1,225,659	939,082
ATBF	Employee services	Professional fees	420,957	382,535
			$ 4,516,548	$ 3,501,242
ATBIM	Compass service fee recovery	Professional fees	$ (12,375)	$ (10,875)
	Interest expense			
ATBF	Other interest expense	Interest expense	$ 25,856	$ 31,713

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 11 FINANCIAL INSTRUMENTS

ATBSI's financial instruments consist of cash and cash equivalents, client cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATBF, due to affiliates, and deferred variable pay.

a) FINANCIAL RISK MANAGEMENT

ATBSI's activities are exposed to a variety of financial risks: price risk, interest rate risk, currency risk, credit risk, liquidity risk and cash flow risk. ATBSI's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBSI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

b) 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 ATBF approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is estimated based on discounting future cash flows by a discount factor used for similar benefit plans.

c) PRICE RISK

There are three types of price risk: currency risk, interest rate risk and market risk.

Currency risk: Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBSI can have material amounts of financial instruments denominated in foreign currencies. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2008, US dollar denominated cash amounted to US$1,952,099, due from clients amounted to US$166,456, accrued liabilities amounted to US$10,867, due to clients amounted to US$1,910,607 and due to brokers and dealers and mutual funds amounted to US$197,081.

Interest rate risk: The amount due to ATBF is subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

Market risk: ATBSI's exposure to financial market risk is limited since there are no significant financial instruments held by the company, which will fluctuate as a result of changes in market prices.

d) CREDIT RISK

ATBSI is exposed to credit risk through its cash and cash equivalents, due from clients, due from brokers and dealers, client fees receivable and trailer fees receivable. ATBSI has deposited the cash and equivalents with reputable financial institutions, from which management believes the risk of loss to be remote. The risk inherent to due from clients, due from brokers and dealers, client fees receivable and trailer fees receivable is effectively mitigated by ATBSI's diverse customer and trading counterparty base.

e) LIQUIDITY RISK

Liquidity risk management requires maintaining sufficient cash and cash equivalents and the availability of funding through ATBSI's parent company.

f) CASH FLOW RISK

As ATBSI has no significant interest bearing assets, ATBSI's income and operating cash flows are substantially independent of changes in market interest rates.

ATB INSURANCE ADVISORS INC.

Financial Statements

For the Sixteen Months Ended March 31, 2008

AUDITOR'S REPORT

To the Board of Directors of ATB Insurance Advisors Inc.

I have audited the Balance Sheet of ATB Insurance Advisors Inc as at March 31, 2008, and the statements of deficit, operations and comprehensive loss and cash flows for the sixteen month period 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, 2008, and the results of its operations and its cash flows for the sixteen month period then ended in accordance with Canadian Generally Accepted Accounting Principles.

[original signed by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 26, 2008

Balance Sheet

As at March 31, 2008

ASSETS	
Cash	$ 137,459
Capital assets (note 5)	30,266
	$ 167,725
LIABILITIES	
Current liabilities	
Accrued liabilities	$ 55,274
Variable compensation payable	10,266
Due to ATBF (note 6)	1,397,140
Due to affiliates (note 4)	21,161
Deferred revenue	25,544
	1,509,385
SHAREHOLDER'S DEFICIENCY	
Share capital (note 7)	5,000
Deficit	(1,346,660)
	(1,341,660)
	$ 167,725

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

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Deficit

As at March 31, 2008

Balance - Beginning of period	$	-
Net loss for the period		1,346,660
Balance - End of period	$	1,346,660

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

Statement of Operations and Comprehensive Loss

For the 16 months ended March 31, 2008

Revenue (note 8)		
Insurance commissions	$	826,540
Interest income		6,904
		833,444
Administration and Selling expenses (note 8)		
Variable compensation expense		235,304
Salaries and employee benefits		1,173,742
Referral fees paid to affiliates		107,171
Other expenses		435,873
Professional fees		176,242
Interest expense		51,772
		2,180,104
Net loss and comprehensive loss	$	(1,346,660)

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

Statement of Cash Flows

For the 16 months ended March 31, 2008

sh provided for (used in)	
Operating activities	
Net loss for the period	$ (1,346,660)
Net change in non-cash working capital items	
Increase in due to affiliates	21,161
Increase in accrued liabilities	55,274
Increase in variable compensation payable	10,266
Increase in deferred revenue	25,544
	(1,234,415)
Investing activities	
System development costs	(30,266)
Financing activities	
Issuance of share capital	5,000
Increase in due to ATBF	1,397,140
	1,402,140
Net change in cash	137,459
Cash- Beginning of period	-
Cash - End of period	$ 137,459
Supplementary information	
Interest paid	$ 44,861
Interest received	$ 6,904

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

Notes to the Financial Statements

March 31, 2008

NOTE 1 INCORPORATION AND OPERATIONS

ATB Insurance Advisors Inc. ("ATBIA") is a wholly owned subsidiary of ATB Financial ("ATBF") established for the purpose of selling wealth management related insurance products to customers of ATBF and its subsidiaries. The continuing operations of ATBIA are dependent upon ATBF's ongoing financial support. ATBIA was incorporated in Alberta under the Business Corporations Act (Alberta) on July 21, 2006 and commenced operations in December 2006. As a provincial corporation, ATBIA is exempt from income tax.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. 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

ATBIA earns insurance commissions from selling insurance products to customers. Insurance commissions are recorded as revenue at the time the customer enters into a policy contract with an insurance provider represented by ATBIA. Commission agreements with insurance providers may include a chargeback clause which provides a right for the insurance provider to chargeback a proportion of commission received by ATBIA if the policy lapses within a specified period. The chargeback period generally expires in two years. As such, a portion of insurance commission revenue is deferred until the chargeback period expires. The deferred amount is estimated with reference to industry information available for similar contracts and will be revised over time to reflect ATBIA's actual lapsing experience.

c) CASH

Cash consists of cash on deposit with ATBF.

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) FINANCIAL INSTRUMENTS

ATBIA has made the following classifications:

- Cash is classified as financial assets held for trading and measured at fair value.
- Accrued liabilities, variable compensation payable, due to ATBF and due to affiliates are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs are expensed as incurred.

Note 2 (continued)

Material contracts entered by ATBIA since the company's inception have been assessed for embedded derivatives. ATBIA does not have any embedded derivatives.

ATBIA does not enter into hedging transactions.

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

a) FINANCIAL INSTRUMENTS – DISCLOSURE

In March 2007, the CICA issued Handbook Section 3862, “Financial Instruments—Disclosures”, which complements CICA 3861 and provides expanded disclosure requirements that provide additional detail by financial assets and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards. ATBIA is in the process of assessing the impact of adopting these new standards. This standard applies to the annual financial statements beginning April 1, 2008.

b) FINANCIAL INSTRUMENTS – PRESENTATION

In March 2007, the CICA also issued Handbook Section 3863, “Financial Instruments—Presentation” to enhance financial statement users’ understanding of the significance of financial instruments to an entity’s financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, gains and losses, and the circumstances in which financial assets and financial liabilities are offset. This standard harmonizes disclosures with International Financial Reporting Standards. ATBIA is in the process of assessing the impact of adopting this new standard. This standard applies to the annual financial statements beginning April 1, 2008.

c) CAPITAL DISCLOSURES

In November 2006, the CICA issued the new handbook Section 1535, “Capital Disclosures,” effective for annual periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company’s capital and how it is managed in order that a user of the financial statements may evaluate ATBIA’s objectives, policies, and processes for managing capital. This standard applies to ATBIA’s annual financial statements beginning April 1, 2008.

NOTE 4 DUE TO AFFILIATES

In the normal course of operations, ATBIA pays referral fees to ATB Investment Services Inc. (“ATBIS”) and ATB Securities Inc. (“ATBSI”). Alternatively, ATBIA may pay for certain expenses on behalf of ATB Investment Management Inc. (“ATBIM”), ATBIS and ATBSI. These amounts are duly recorded, as payables and receivables in each of ATBIS, ATBIM, ATBSI and ATBIA. The amounts due to (from) affiliates are generally settled in the following month are not subject to interest charges. The amounts due to (from) affiliates as at March 31 are as follows:

	2008
Due from ATBIM	$ (21)
Due to ATBSI	15,325
Due to ATBIS	5,857
	$ 21,161

NOTE 5 CAPITAL ASSETS

	Cost	Accumulated amortization	2008 Net book value
System development costs	$ 30,266	-	$ 30,266

All completed system development projects completed are transferred to computer software.

NOTE 6 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses and collects interest revenue on behalf of ATBIA. The amounts due to ATBF will be settled within the next year. The amounts due to ATBF as at March 31 arising from these transactions are as follows:

	2008
Due to ATBF	$ 1,397,140

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2008 was 5.25%.

NOTE 7 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

	2008
Class A common shares	100
Amount	$ 5,000

NOTE 8 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBIA pays fees to ATBSI and ATBIS. ATBF also charges ATBIA for administrative and selling services, as well as charging interest on amounts owing to ATBF.

The summary of these transactions for the period ended March 31 is as follows:

Related party	Transactions	Recorded as	2008
	Revenue		
ATBF	Interest	Interest income	$ 6,904
	Administrative and selling expenses		
ATBIS/ATBSI	Referral fees	Referral fees paid to affiliates	$ 107,171
ATBF	Premises and equipment rental	Other expenses	33,000
ATBF	Administrative services	Other expenses	74,091
ATBF	Information Technology and Marketing	Other expenses	77,600
			$ 291,862
	Interest expense		
ATBF	Interest expense	Interest expense	$ 51,772

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 party.

NOTE 9 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

ATBIA's financial instruments consist of cash, accrued liabilities, variable compensation payable and due to ATBF.

a) FINANCIAL RISK MANAGEMENT

ATBIA's activities are exposed to a variety of financial risks: price risk, credit risk, liquidity risk and cash flow risk. ATBIA's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIA's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

b) FAIR VALUE

The fair value of cash, accrued liabilities, variable compensation payable and amounts due to ATBF approximate the carrying value due to the short-term nature of these instruments.

Note 9 (continued)

c) PRICE RISK

There are three types of price risk: currency risk, interest rate risk and market risk.

Currency risk: Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBIA does not have any financial instruments denominated in foreign currencies.

Interest rate risk: ATBIA's due to ATBF balance is subject to interest rate fluctuation and the degree of volatility in these rates. ATBIA does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be material.

Market risk: ATBIA's exposure to financial market risk is limited since there are no significant financial instruments, which will fluctuate as a result of changes in market prices.

d) CREDIT RISK

ATBIA is exposed to credit risk through its cash. ATBIA has deposited the cash with a reputable financial institution, from which management believes the risk of loss to be remote.

e) LIQUIDITY RISK

Liquidity risk management requires maintaining sufficient cash and the availability of funding through ATBIA's parent company, ATBF.

f) CASH FLOW RISK

As ATBIA has no significant interest bearing assets, ATBIA's income and operating cash flows are substantially independent of changes in market interest rates.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

December 31, 2007

AUDITOR'S REPORT

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the Balance Sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 2007 and the Statements of Income and Fund Equity and Comprehensive Income and Accumulated Other Comprehensive 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, 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 4, 2008

Balance Sheet

December 31, 2007

	($ thousands)	
	2007	2006
Assets		
Cash	$ 16,005	$ 13,764
Investments (Note 3)	116,164	110,422
Accrued interest receivable	792	935
Income taxes receivable	120	238
Due from credit unions	3,956	3,404
Other assets (Note 4)	1,053	822
Property and equipment (Note 5)	202	258
	$ 138,292	$ 129,843
Liabilities		
Accounts payable and accrued liabilities	$ 1,230	$ 1,041
Accrual for financial assistance (Note 6)	1,000	1,400
Deferred revenue	1,465	1,239
Special contribution payable (Note 7)	15,008	12,982
Long-term unclaimed credit union balances	716	674
	19,419	17,336
Commitments and contingencies (Note 8)		
Equity		
Deposit Guarantee Fund	118,426	110,716
Master Bond Fund	1,378	1,791
Accumulated Other Comprehensive Income (Note 2(i))	(931)	-
	118,873	112,507
	$ 138,292	$ 129,843

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

Approved by the Board:

Allister McPherson, Director

Mary Ritchie, FCA, Director

Statements of Income and Fund Equity

For the Year ended December 31, 2007

	($ thousands)		
	2007 Budget (Note 11)	2007 Actual	2006 Actual
Deposit Guarantee Fund			
Revenues:			
Deposit guarantee assessments	$ 20,727	$ 22,062	$ 18,853
Investment income	5,334	5,415	5,286
	26,061	27,477	24,139
Expenses:			
Provision for (recovery of) financial assistance (Note 6)	500	(410)	(259)
Special contribution (Note 7)	14,123	15,008	12,982
Administration expenses (Schedule 1)	5,761	5,111	4,289
	20,384	19,709	17,012
Income before income taxes	5,677	7,768	7,127
Income taxes (Note 9)	(67)	58	136
Net income for the year	5,744	7,710	6,991
Equity at beginning of year	109,737	110,716	103,725
Equity at end of year	$ 115,481	$ 118,426	$ 110,716
Master Bond Fund			
Revenues:			
Insurance assessments	$ 1,428	$ 1,294	$ 1,277
Investment income	102	103	89
	1,530	1,397	1,366
Expenses:			
Insurance premiums	945	883	860
Administration expenses (Schedule 1)	120	120	120
Insurance claims	273	807	208
	1,338	1,810	1,188
Net income (loss) for the year	192	(413)	178
Equity at beginning of year	1,828	1,791	1,613
Equity at end of year	$ 2,020	$ 1,378	$ 1,791

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

Statements of Comprehensive Income and Accumulated Other Comprehensive Income

For the Year ended December 31, 2007

($ thousands)

	2007 Budget (Note 11)	2007 Actual	2006 Actual
Net income			
Deposit Guarantee Fund	$ 5,744	$ 7,710	$ 6,991
Master Bond Fund	192	(413)	178
	5,936	7,297	7,169
Other comprehensive income (loss)			
Unrealized (losses) gains on available-for-sale financial instruments net of income tax of $172	-	(987)	
Reclassification to net income net of income tax of $8	-	(49)	-
	-	(1,036)	-
Comprehensive income	$ 5,936	$ 6,261	$ 7,169
Accumulated other comprehensive income at beginning of year	-	-	-
January 1, 2007 transition adjustment net of income tax of $19	-	105	-
Other comprehensive income	-	(1,036)	-
Accumulated other comprehensive income at end of year	$ -	$ (931)	$ -

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

Statement of Cash Flows

For the Year Ending December 31, 2007

	($ thousands)		
	2007 Budget (Note 11)	2007 Actual	2006 Actual
Operating activities:			
Assessments received	$ 21,927	$ 23,058	$ 19,753
Investment income received	4,904	5,661	5,286
Financial assistance (paid) recovered	(500)	10	59
Interest and bank charges paid	(1)	(16)	(11)
Insurance claims paid	(294)	(664)	(154)
Income taxes paid (recovered)	10	70	(453)
Paid to suppliers and employees	(6,689)	(5,951)	(4,947)
Special contribution paid	(12,447)	(12,982)	(11,032)
Cash flows from operating activities	6,910	9,186	8,501
Investing activities:			
Purchase of investments, net	(6,758)	(6,834)	(6,067)
Purchase of property and equipment	(152)	(111)	(243)
Cash flows used in investing activities	(6,910)	(6,945)	(6,310)
Cash inflow	0	2,241	2,191
Cash at beginning of year	13,000	13,764	11,573
Cash at end of year	$ 13,000	$ 16,005	$ 13,764

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

Notes to the Financial Statements

December 31, 2007

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, 2007, credit unions in Alberta held deposits including accrued interest totaling $13,337,427,000 (2006 - $11,785,174,000). 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.

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, 2007, securities held by the Fund have an average effective market yield of 4.88% per annum (2006 - 4.55% per annum).

Note 2 (continued)

d) INVESTMENTS AND INVESTMENT INCOME

Effective January 1, 2007, investments are carried at fair value in accordance with section (i) below. Substantially all securities held are purchased with the intention to hold them to maturity. However, as securities have been sold prior to maturity in the past, investments are classified as available-for-sale.

Gains and losses on sale of investments are included with investment income in the year of sale. Interest revenue and dividend income are recognized when earned and are included in investment revenue. Any discounts or premiums are amortized over the life of the investment using the effective interest method. When the fair value of investments falls below cost and the decline is other than temporary, the difference between the fair value and cost is recognized as a loss in the statement of income.

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.

i) CHANGES IN ACCOUNTING POLICIES - FINANCIAL INSTRUMENTS

Effective January 1, 2007, the Corporation adopted new or revised accounting standards issued by the Canadian Institute of Chartered Accountants (or “CICA”): CICA Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3861, Financial Instruments, Disclosure and Presentation. The adoption of new accounting policies to comply with these standards, often collectively referred to as “the financial instruments standards” or “the new standards”, resulted in certain changes to the Corporation’s accounting for financial instruments. As these new policies have been adopted prospectively, prior period results have not been restated and certain transition adjustments have been recorded in opening balances as at January 1, 2007 (the transitional date)

Note 2 (continued)

i) Changes in accounting policies - financial instruments (continued)

Classification of financial instruments

A financial instrument is a contract that establishes a financial asset for one party and a financial liability or equity instrument for the other party. Prior to adopting the new standards, the Corporation accounted for virtually all of its financial assets and financial liabilities on an accrual basis and measured them at cost or amortized cost, as applicable.

Section 3855 establishes a new framework for the recognition and measurement of financial assets and financial liabilities. All existing financial instruments have been classified as of January 1, 2007 according to this new framework, either based on the type of instrument or the Corporation's intention regarding the instrument, as described below. Any new financial instruments entered into after that date will be classified on inception. This classification determines how financial instruments are accounted for under the new standards.

Held-for-trading

The Corporation has classified cash resources as "held-for-trading" (or "HFT") as of January 1, 2007. Financial assets and liabilities classified as HFT are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) recorded in "net income" in the Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as investment income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

Available-for-sale

The Corporation has classified investments as "available-for-sale" as of January 1, 2007. Financial assets classified as "available-for-sale" are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not recognized in income but are recognized in accumulated other comprehensive income ("AOCI") until sale when the cumulative gain or loss on disposal is transferred to the Statement of Income as investment income.

Held-to-maturity

The Corporation may classify financial assets as "held-to-maturity" (or "HTM") if the assets have fixed or determinable payments, a fixed term to maturity and if the Corporation has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective interest rate method. The Corporation has not classified any financial assets as HTM.

Receivables

Accrued interest receivable and due from credit unions have been classified as receivables and are valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Financial liabilities

Accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances have been classified as financial liabilities and have been valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Transaction costs

Transaction costs relating to financial assets and liabilities are expensed as incurred.

Note 2 (continued)

i) Changes in accounting policies - financial instruments (continued)

Embedded derivatives

On adoption of the new standards, the Corporation has reviewed contracts signed after January 1, 2003 and identified no embedded derivatives within contracts.

Comprehensive income and accumulated other comprehensive income
Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on securities classified as available-for-sale

Amounts recognized in other comprehensive income will eventually be reclassified to the Statement of Income and reflected in net income as gains or losses once securities classified as available-for-sale are realized

Comprehensive income and its components are disclosed in the new Statement of Comprehensive Income. This Statement also presents the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a new component of equity on the Balance Sheet.

Transition adjustment

On adoption of the new accounting policies for financial instruments, a transition adjustment of $105,000 was recognized as an adjustment to equity at January 1, 2007 related to accumulated other comprehensive income. A similar adjustment was made for investments to recognize the unrealized gain on investments classified as available-for-sale.

Other

On adoption of the new standards, the Corporation has elected to recognize investment transactions relating to its securities portfolio on a settlement date basis.

j) FUTURE CHANGE IN ACCOUNTING POLICIES

Financial instruments - disclosure and presentation

Effective January 1, 2008, we will adopt two new Canadian standards relating to the disclosure and presentation of financial instruments, enhancing user's ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

Capital disclosures

Effective January 1, 2008, we will adopt two new Canadian standards on capital disclosures. This section establishes standards for disclosure of both qualitative and quantitative information that enable users to evaluate an entity's objectives, policies and processes for managing capital.

NOTE 3 INVESTMENTS

Investments have been recorded at fair value in 2007 and at cost in 2006, see Note 2(i) for a description of the change in accounting policy.

	($ thousands)			
	2007		2006	
	Fair Value [1]	Cost	Fair Value [1]	Cost
Securities issued or guaranteed by:				
Canada	38,108	37,787	39,609	39,533
Provinces	24,354	24,204	23,117	22,947
Financial institutions	13,811	14,096	10,718	10,606
Universal Fixed Income Pool [2]	19,800	20,186	3,977	4,054
Asset backed securities and other [3]	20,091	20,982	33,099	33,282
Total	116,164	117,255	110,520	110,422

1 Fair value is calculated using independent pricing sources and Canadian investment dealers.

2 Name of pool changed from the Canadian Dollar Public Debt Pool during 2007.

3 Other securities are shares of Credit Union Central Alberta Limited ($100,000) and Concentra Financial Services Association ($15,000). These securities have no specified maturity and are classified as available-for-sale. As there is no market for the shares, the fair value is estimated at amortized cost.

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, 2007, securities held have an average effective yield of 4.30% per annum based on cost (2006 - 4.30%); 4.52% per annum based on fair value (2006 - 4.24%). These securities have the following term structure based on cost: under one year - 6% (2006 - 6%); over one year and under five years - 40% (2006 - 35%); over five years and under ten years - 54% (2006 - 59%).

The fair value of the investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the fair value is the prevailing rate of interest. An increase of 1 percent in interest rates will result in a decrease of approximately $964,000 (2006 - $1,079,000) in the fair value of the total investments; and conversely, a decrease of 1 percent in interest rates will result in an increase in the fair value of the same amount.

The Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions and AAA for asset backed securities from a recognized credit rating agency.

NOTE 4 OTHER ASSETS

	($ thousands)	
	2007	2006
Prepaid expenses	$ 867	$ 787
Future income taxes recoverable - comprehensive income	161	-
Future income taxes recoverable	25	35
Total	$ 1,053	$ 822

Future income taxes recoverable - comprehensive income represents the income tax benefit that will be realized based on the unrealized investment losses in AOCI at December 31, 2007.

NOTE 5 PROPERTY AND EQUIPMENT

($ thousands)

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 383	$ 304	$ 79	$ 77
Computer equipment	161	121	40	53
Leasehold improvements	214	160	54	71
Computer software	352	323	29	57
Total	$ 1,110	$ 908	$ 202	$ 258

NOTE 6 ACCRUAL FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1, the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

($ thousands)

	2007	2006
Accrual for financial assistance:		
Balance at beginning of year	$ 1,400	$ 1,600
Change in accrual for financial assistance	(400)	(200)
Balance at end of year	$ 1,000	$ 1,400
Provision for (recovery of) financial assistance:		
Change in accrual for financial assistance	$ (400)	$ (200)
Financial assistance payments	2	-
Loan loss recoveries	(12)	(59)
Provision for (recovery of) financial assistance	$ (410)	$ (259)

NOTE 7 SPECIAL CONTRIBUTION PAYABLE

	($ thousands)	
	2007	2006
Balance at beginning of year	$ 12,982	$ 11,032
Payment of previous year's special contribution	(12,982)	(11,032)
Special contribution for the year	15,008	12,982
Balance at end of year	$ 15,008	$ 12,982

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 $371,000 (2006 - $483,000)

The following amounts represent minimum payments over the next four years:

2008	$ 12,000
2009	119,000
2010	120,000
2011	20,000

b) LITIGATION

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation.

NOTE 9 INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims, or special contributions paid.

The Corporation's statutory income tax rate is 14.44% (2006 - 15.85%). 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:

	($ thousands)	
	2007	2006
Expected income tax expense on pre-tax income at the statutory rate (net of general tax reduction)	$ 887	$ 1,158
Add (deduct) tax effect of:		
Non-taxable assessments	(3,373)	(3,191)
Non-deductible special contribution	2,167	2,058
Non-taxable provision for financial assistance	59	(41)
Non-deductible insurance premiums	127	136
Non-deductible insurance claims	117	33
Other	74	(17)
Income taxes	$ 58	$ 136

At December 31, 2007 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $173,000 (2006 - $222,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 14.44%.

	($ thousands)	
	2007	2006
Current income taxes	$ 48	$ 158
Future income taxes	10	(22)
Income taxes	$ 58	$ 136

NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION

($ thousands)

	2007				2006
	Director's Fees or Salary [1]	Other Cash Benefits [2]	Other Non Cash Benefits [3]	Total	Total
Chair [4]	$ 17	$ -	$ -	$ 17	$ 17
Board Members [4, 7]	103	-	-	103	86
Current senior management:					
President and Chief Executive Officer [5]	188	50	26	264	295
Vice President, Finance and Administration	169	34	21	224	209
Vice President, Credit and Risk Management [5]	148	31	17	196	206
Vice President, Strategic Planning and Information Services [5]	112	19	17	148	135
Director, Special Projects [6]	19	-	-	19	25

1 Salary includes regular base pay.

2 Other cash benefits include bonus and perquisite amounts.

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, 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 includes the current and previous incumbent.

6 The individual was on leave for 2007 and a portion of 2006. Vacation pay owing at December 31, 2007 was paid out.

7 The minimum and maximum amounts paid to directors was $13,000 (2006 - $7,000) and $22,000 (2006 - $24,000) respectively. The average amount paid to directors was $17,000 (2006 - $14,000).

NOTE 11 2007 BUDGET

The 2007 budget was approved by the Board of Directors on September 25, 2006.

NOTE 12 COMPARATIVE FIGURES

The 2006 figures have been reclassified where necessary to conform to 2007 presentation.

SCHEDULE OF ADMINISTRATION EXPENSES

Schedule 1

For the Year ending December 31, 2007

	($ thousands)		
	2007 Budget	2007 Actual	2006 Actual
Deposit Guarantee Fund			
Salaries and benefits	4,119	3,791	3,237
Other	341	325	172
Professional fees	310	262	120
Rental charges	244	212	212
Amortization	174	166	207
Office	200	165	141
Staff travel	235	151	172
Board and committee fees	167	119	103
Board and committee expenses	91	40	45
	5,881	5,231	4,409
Allocation to Master Bond Fund	(120)	(120)	(120)
	5,761	5,111	4,289

N.A. PROPERTIES (1994) LTD.

Financial Statements

March 31, 2008

AUDITOR'S REPORT

To the Shareholders of N.A. Properties (1994) Ltd.

I have audited the balance sheet of N.A. Properties (1994) Ltd. as at March 31, 2008 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, 2008 and 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.

[original signed by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 30, 2008

Balance sheet

As at March 31, 2008

	($ thousands)	
	2008	2007
Assets		
Cash (Note 4)	$ 2,782	$ 2,667
Note receivable (Note 5)	24	20
	$ 2,806	$ 2,687
Liabilities		
Obligations under indemnities and commitments (Note 6)	$ 720	$ 801
Shareholder's Equity		
Share capital (Note 7)	5,769	5,769
Deficit	(3,683)	(3,883)
	2,086	1,886
	$ 2,806	$ 2,687

The accompanying notes are part of these financial statements.

On Behalf of the Board:

Rod Matheson
Sole Director

Statement of Operations and Deficit

For the year ended March 31, 2008

	($ thousands)	
	2008	2007
Revenue		
Interest and other	$ 122	$ 113
Expense		
General and administrative	3	86
Operating income before provision	119	27
Recovery of (provision for) obligations under indemnities and commitments (Note 6)	81	80
Excess (deficiency) of revenue over expense for the year	200	107
Deficit, beginning of year	(3,883)	(3,990)
Deficit, end of year	$ (3,683)	$ (3,883)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2008

($ 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, 2008, securities held by the Fund have an average effective market yield of 4.35% per annum (March 31, 2007: 4.36% 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, 2008 is $24 (2007 - $20). 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, 2008 is estimated to be $72 (2007 - $60) using the current interest rate in effect and adjusting the rate for a risk premium.

NOTE 6 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $1,564 at March 31, 2008 (2007 - $1,690). 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.

	($ thousands)	
	2008	**2007**
Beginning balance	$ 801	$ 881
(Recovery of) provision for obligations under indemnities and commitments	(81)	(80)
Ending balance	$ 720	$ 801

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

		($ thousands)	
		2008	2007
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.

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, 2008.

NOTE 10 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2008 and 2007.

NOTE 11 BUDGET

The Company's annual budget appears in the 2007-08 Government and Lottery Fund Estimates. The budget projected a net excess of revenue over expenses for the year of $150. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

Commercial Crown-controlled Corporations

GAINERS INC

Consolidated Financial Statements

September 30, 2007

AUDITOR'S REPORT

To the Shareholders of Gainers Inc.

I have audited the consolidated balance sheet of the Gainers Inc. as at September 30, 2007 and the consolidated statement 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 financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2007 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
December 20, 2007

Consolidated Balance Sheet

As at September 30, 2007

	($ thousands)	
	2007	2006
Assets		
Cash	$ 2	$ 2
Investment in and amount due from former affiliate (Note 2)	-	-
	$ 2	$ 2
Liabilities		
Accounts payable and accrued liabilities	$ 113	$ 151
Principal and interest on prior years income taxes (Note 3)	11,334	11,334
Long-term debt (Note 4)	192,947	192,905
	204,394	204,390
Shareholder's Deficiency		
Share capital (Note 6)	1	1
Deficit	(204,393)	(204,389)
	(204,392)	(204,388)
	$ 2	$ 2

Approved by the Board of Directors

Dan Harrington, Director

Consolidated Statement of Operations and Deficit

For the Year ended September 30, 2007

	($ thousands)	
	2007	2006
Expenses		
Interest on prior years' income taxes	$ -	$ 790
General and administrative	4	4
Net loss for the year	(4)	(794)
Deficit, beginning of year	(204,389)	(203,595)
Deficit, end of year	$ (204,393)	$ (204,389)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year ended September 30,2007

	($ thousands)	
	2007	2006
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (4)	$ (794)
Net change in non-cash working capital items	(38)	750
	(42)	(44)
Financing activities		
Proceeds from long-term debt	42	44
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.

Notes to the Consolidated Financial Statements

September 30, 2007

(in thousands of dollars, except per share amounts)

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. Management does not expect any recovery of that investment.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 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 350151 are not included in these financial statements. In December 1995, a judgment as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgment. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1989 was a breach of the Master Agreement (Note 4) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgement was subsequently paid from realizing on collateral security held for the debt.

NOTE 3 INCOME TAXES

The prior years' liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. The company will not be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount, which is reasonably expected to be recovered from the remaining assets of the company.

The company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $54,491. The amount of non-capital losses available for carry forward is $83. These non-capital losses expire between 2008 and 2027.

NOTE 4 LONG-TERM DEBT

	($ thousands)	
	2007	2006
Province of Alberta		
Term loan	$ 6,000	$ 6,000
Assignment of prior operating loans from previous banker		
Term bank loan (US $8,749)	11,567	11,567
Operating loan	20,979	20,979
Advances under guarantee for principal interest payments	31,947	31,947
Promissory note	42,846	42,846
Advance to facilitate sale	13,000	13,000
Advances under guarantee and indemnity for operating line	18,469	18,469
Default costs and guarantee fees	13,648	13,606
Accrued interest	34,491	34,491
	$ 192,947	$ 192,905

The fair value of the long-term debt is dependent on outcomes from claims filed by or against Gainers Inc. The fair value as at September 30, 2007 is estimated to be $nil.

Province of Alberta

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

Interest

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

Note 4 (continued)

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. Management does not expect any recovery of this claim.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,084 (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. Management does not expect any recovery of this claim.

c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement or alternatively, negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

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 judgment to the Trial Court to calculate. The Trial Court granted summary judgment to Alberta for $10,000 for such interest.

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

	($ thousands)	
	2007	2006
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
- Statement of Borrowings Made under Section 56(1) of the *Finance Administration Act*
- Statement of the Amount of the Debt of the Crown for which Securities were Pledged
- Statement of Guarantees and Indemnities
- Financial Statements of Pension Plans

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 1, 2008

The following 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	$ 77,534
Accounts and interest receivable	
Corporate income tax	5,963,412
Insurance Corporations Tax	188,858
Tourism Levy	7,147
Fuel Tax - IFTA	2,523
Fuel Tax - Claims	154,052
Tobacco Tax - Claims	532
	6,394,058
Alberta Treasury Branches	
Loans and accounts receivable	85,765,000
	$ 92,159,058
COMPROMISES	
Corporate Income Tax	$ 6,331,496
	$ 98,490,554

STATEMENT OF BORROWINGS MADE UNDER SECTION 56(1) OF THE FINANCIAL ADMINISTRATION ACT FOR THE

For the year ended March 31, 2008

The following statement has been prepared pursuant to section 56(2) of the *Financial Administration Act.*

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 5,389,000,000	$ 5,378,391,226
Debentures	195,000,000	194,748,000
	$ 5,584,000,000	$ 5,573,139,226

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 2007-08 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act was $Nil.*

STATEMENT OF GUARANTEES AND INDEMITIES

For the Year Ended March 31, 2008

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act.* The statement summarizies 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, 2008, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recivered in debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Payments	Recoveries
CROWN GUARANTEES		
Gainers Inc. and subsidiaries	$ 77,534	$ -
Feeder Association payments recoverable from the Department of Agriculture, Food and Rural Development	1,046,959	1,046,959
	1,124,493	1,046,959
CROWN INDEMNITIES		
Native residential school litigation indemnity payments recoverable from the Department of Education	14,520	14,520
	14,520	14,520
	$ 1,139,013	$ 1,061,479

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2007

AUDITOR'S REPORT

To the Minister of Finance and Enterprise 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, 2007 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, 2007 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 28, 2008

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

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2007

	($ thousands)	
	2007	2006
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 15,566,024	$ 14,615,134
Contributions receivable (Note 6)	34,114	31,759
Accrued investment income and accounts receivable	2,110	4,461
	15,602,248	14,651,354
Liabilities		
Accounts payable	14,382	6,305
Net assets available for benefits	15,587,866	14,645,049
Accrued Benefits		
Actuarial value of accrued benefits	16,771,200	15,391,700
Deficiency	$ (1,183,334)	$ (746,651)

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

Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Increase in assets		
Contributions (Note 7)	$ 929,571	$ 834,972
Net investment income (Note 8)		
Investment income	750,942	1,831,051
Investment expenses	(57,616)	(44,952)
	693,326	1,786,099
	1,622,897	2,621,071
Decrease in assets		
Pension benefits	466,880	429,125
Refunds to members	187,637	142,388
Transfers to other plans	8,178	7,078
Plan expenses (Note 9)	17,385	16,573
	680,080	595,164
Increase in net assets	942,817	2,025,907
Net assets available for benefits at beginning of year	14,645,049	12,619,142
Net assets available for benefits at end of year	$ 15,587,866	$ 14,645,049

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

Statement of Changes in Accrued Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Increase in accrued benefits		
Interest accrued on benefits	$ 1,073,000	$ 948,100
Benefits earned	725,200	680,100
Changes in actuarial assumptions (Note 10 (a))	123,200	801,200
Net experience losses (Note 10 (a))	125,400	69,200
	2,046,800	2,498,600
Decrease in accrued benefits		
Benefits paid including interest	667,300	589,600
Net increase in accrued benefits	1,379,500	1,909,000
Accrued benefits at beginning of year	15,391,700	13,482,700
Accrued benefits at end of year (Note 10)	$ 16,771,200	$ 15,391,700

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

Statement of Changes in Deficiency

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Deficiency at beginning of year	$ (746,651)	$ (863,558)
Increase in net assets available for benefits	942,817	2,025,907
Net increase in accrued benefits	(1,379,500)	(1,909,000)
Deficiency at end of year	$ (1,183,334)	$ (746,651)

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

Notes to the Financial Statements

December 31, 2007

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, 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, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556. The Minister of Finance and Enterprise acts as trustee for the Plan.

b) PLAN FUNDING

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 rates in effect at December 31, 2007 were 6.75% (2006 6.75%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.64% (2006 9.64%) of the excess for employees, and 7.75% (2006 7.75%) of pensionable earnings up to the YMPE and 10.64% (2006 10.64%) 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.

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 at least 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.

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 will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

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. These payments are included as Refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Note 1 (continued)

g) OPTIONAL SERVICE AND RECIPROCAL TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian 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 and Enterprise. 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 is 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 appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and income investments 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 earnings analyses.

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

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 valuators.

vii) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

Note 2 (continued)

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all investments, including those from derivative contracts, 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.

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) 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.

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

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, absolute return strategies, and real estate investments. 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, absolute return strategies, and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

Note 2 (continued)

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, absolute return strategies, and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations 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.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	($ thousands)			
	2007		2006	
	Fair Value		Fair Value	
		%		%
Risk Matching				
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 330,358	2.1	$ 253,109	1.7
Canadian Long Term Government Bond Pool (b)	3,207,047	20.6	2,664,300	18.2
Universe Fixed income Pool (b)	625,025	4.0	714,449	4.9
Real rate of return bonds (c)	776,295	5.0	615,007	4.2
Private Mortgage Pool (d)	626,156	4.0	433,098	3.0
Currency Alpha Pool (e)	20,253	0.1	34,653	0.3
Tactical Asset Allocation Pool (f)	24,034	0.1	50,219	
	5,609,168	35.9	4,764,835	32.3
Private Income Pools (g)	374,054	2.4	277,266	1.9
	5,983,222	38.3	5,042,101	34.4
Short Horizon				
Canadian Equities (Schedule B)				
Canadian Large Cap Equity Pool (h)	1,251,085	8.1	1,314,274	9.0
Canadian Equity Enhanced Index Pool (i)	737,260	4.7	740,665	5.1
Canadian Small Cap Equity Pool (h)	598,763	3.8	632,963	4.3
Private Equity Pool	8,392	0.1	32,295	0.2
Tactical Asset Allocation Pool: futures contracts(f)	-	-	(202,077)	(1.4)
	2,595,500	16.7	2,518,120	17.2
United States Equities (Schedule C)				
U.S. Structured Equity Pool (j)	464,019	3.0	719,693	4.9
US Small/Mid Cap Equity Pool (k)	644,193	4.1	580,953	4.0
Portable Alpha U.S. Pool (l)	458,594	3.0	463,124	3.2
Tactical Asset Allocation Pool: futures contracts (f)	-	-	202,077	1.4
	1,566,806	10.1	1,965,847	13.5
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (m)	2,277,375	14.6	2,236,374	15.3
Emerging Markets Equity Pool (n)	103,844	0.7	163,768	1.1
EAFE Structured Equity Pool (o)	273,186	1.8	411,736	2.8
	2,654,405	17.1	2,811,878	19.2
Absolute Return Strategy Pool (p)	702,939	4.5	579,942	4.0
	7,519,650	48.4	7,875,787	53.9
Long Horizon				
PrivateReal Estate Pool (q) (Schedule E)	1,605,600	10.3	1,473,690	10.1
Private equities (r)	385,825	2.5	173,184	1.2
Timberland Pool (s)	71,727	0.5	50,372	0.3
	2,063,152	13.3	1,697,246	11.6
Total investments	$ 15,566,024	100	$ 14,615,134	100

Note 3 (continued)

The Plan's investments are classified into three broad categories which include risk matching, short and long horizon investments. Risk matching assets contain predictable cash flows to better match liability flows. Short horizon investments focuses on value-added returns against benchmarks over short time horizons. Long horizon investments include less liquid assets that produce expected returns with high risk premiums.

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 Universe Fixed Income Pool (UFIP) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Long Term All Government Bond Index and the DEX Bond Universe Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CLGB portfolio invests primarily in high quality fixed income instruments of the federal, provincial and municipal governments of Canada while the UFIP 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 DEX Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The pool primarily invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

e) 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.

f) 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 December 31, 2007, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

g) The Private Income Pools are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 6%. The Private Income Pools invest 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 partnership.

h) The 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 a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

i) The Canadian Equity Enhanced Index Pool consists 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.

Note 3 (continued)

j) The US 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 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 structural investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

k) The US Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities actively managed by an external manager with expertise in the US small/mid 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.

l) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. 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 total return of the S&P 500 Index over a four-year period.

m) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed 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.

n) 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 (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

o) The EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

p) The Absolute Return Strategy Pool is managed with the objective of providing investment returns comparable to the HFRX Global Investable Index. The pool is intended to yield absolute positive investment returns with lower volatility using various investment strategies.

q) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through 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.

r) Foreign Private Equity Pools are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8%. The Foreign Private Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

s) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

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 policy asset mix of 38.5% risk matching, 44.5% short horizon and 17.0% long horizons. 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. Forward foreign exchange contracts are 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 interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. 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. 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 and leveraging is not allowed.

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

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified stock index.

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.

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, 2007:

($ thousands)

	2007					2006	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%					
Equity index swap contracts	95	5	-	$ 1,117,064	$ (18,648)	1,416,623	40,023
Forward foreign exchange contracts	100	-	-	1,911,124	11,948	1,829,863	(19,937)
Swap option contracts	52		48	357,769	68	660,555	(482)
Interest rate swap contracts	6	14	80	401,881	(1,763)	635,831	(574)
Cross-currency interest rate swaps	20	50	30	233,334	10,228	321,275	10,780
Credit default swap contacts	2	22	76	670,734	(2,018)	408,346	637
Equity index future contracts	100	-	-	396,514	$ 12,457	856,531	$ 28,927
Bond index swap contracts	100			542,766	4,044	204,976	1,176
				$ 5,631,186	$ 16,316	$ 6,334,000	$ 60,550

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). Credit exposure is limited by dealing with counter-parties with good credit standing.

NOTE 6 CONTRIBUTIONS RECEIVABLE

($ thousands)

	2007	2006
Employers	$ 18,057	$ 16,744
Employees	16,057	15,015
	$ 34,114	$ 31,759

NOTE 7 CONTRIBUTIONS

($ thousands)

	2007	2006
Current and optional service		
Employers	$ 475,593	$ 435,722
Employees (a)	437,352	392,214
Transfers from other plans	16,626	7,036
	$ 929,571	$ 834,972

a) Includes $16,697 (2006 $13,881) of optional service contributions.

NOTE 8 NET INVESTMENT INCOME

a) INVESTMENT INCOME

Net investment income is comprised of the following:

	($ thousands) 2007	2006
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 222,422	$ 1,365,737
Interest income	293,889	252,838
Dividend income	160,794	141,454
Real estate income	66,254	66,180
Securities lending income	7,583	4,842
	750,942	1,831,051
Investment expenses	(57,616)	(44,952)
Net investment income	$ 693,326	$ 1,786,099

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

	($ thousands) 2007	2006
Canadian Equities	308,365	404,511
Real Estate	291,216	261,447
Bonds and mortgages	115,944	168,952
Absolute returrn strategies	56,580	51,241
Private income	45,473	48,322
Timberland	28,544	2,085
Money market	12,929	10,569
Real return bonds	13,610	(18,009)
Private equities	12,026	21,982
Non-North American equities	(62,413)	600,936
United States equities	(128,948)	234,063
Net investment income	$ 693,326	$ 1,786,099

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 actual return*	4.7%	10.8%	6.2%
Benchmark return**	3.0%	9.8%	5.5%

* 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 and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

Note 8 (continued)

b) INVESTMENT EXPENSES

On January 1, 2008, the investment operations of the Department of Finance and Enterprise were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance and Enterprise. It provides the day to day investment services for the Fund's investment portfolio. AIMCo invests the assets for the long-term benefit of the Plan's membership and in accordance with the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services provide by AIMCo and external managers include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

	($ thousands)	
	2007	2006
Investment operations of Alberta Finance [1]	6,514	4,945
External manager fees	51,102	40,007
Total investment expenses	57,616	44,952
Investment expenses as a percentage of net assets	0.37%	0.31%

[1] On January 1, 2008, the investment operations of the Department of Finance were transferred to AIMCO.

NOTE 9 PLAN EXPENSES

	($ thousands)	
	2007	2006
General administration costs and process improvement costs		
Alberta Pensions Administration Corporation (APA)	$ 15,385	$ 14,471
Alberta Local Authorities Pension Plan Corp.	1,759	1,910
Actuarial fees	241	192
	$ 17,385	$ 16,573

General administration costs and process improvement costs, including Plan Board costs 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 and Enterprise.

Investment management costs were paid to Alberta Finance and Enterprise on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated investment expenses totalling $57,616 (2006 $44,952) (see Note 8), which have been included in calculating net investment income, are excluded from plan expenses.

Note 9 (continued)

Alberta Local Authorities Pension Plan Corporation costs include remuneration to senior officials as follows:

	($ thousands)	
	2007	2006
Chief Executive Officer		
Salary and bonus	$ 218	$ 182
Benefits*	47	43
Vice-President, Policy and Legal		
Salary and bonus	166	140
Benefits*	30	27
Vice-President, Investments**		
Salary and bonus	60	170
Benefits*	22	32
	$ 543	$ 594

* Includes employer's contribution to the Management Employees Pension Plan and the Supplementary Retirement Plan for 2007.

** The position was discontinued after the first 3 months in 2007.

Total Plan expenses, including pooled funds management and associated investment expenses amounted to $432 per member (2006 $375 per member).

Pooled funds management and associated investment expenses amounted to $332 per member (2006 $274 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 investment expenses amounted to 0.48% (2006 0.42%) of assets under administration.

NOTE 10 ACCRUED BENEFITS

a) ACTUARIAL VALUATION

The following is a summary of actuarial assumption changes and net experience losses as revealed in the 2006 valuation and reported in 2007:

	($ thousands)	
	2007	2006
Changes in actuarial assumptions		
Change in the investment rate of return, inflation, and salary escalation assumptions	$ 123,200	$ 801,200
Net experience losses (gains)		
Combined salary, YMPE increases and indexation were other than assumed	$ 83,100	$ 43,300
Retirement, termination, disability and mortality experiences were less favorable than assumed	13,500	35,900
Cost-of-living increase in pension benefit payments was other than expected, prior service data and other changes	28,800	(10,000)
	$ 125,400	$ 69,200

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 and the Board of Trustees, adopted by Alberta Finance and Enterprise

The major assumptions used were:

	2006 Valuation and 2007 Extrapolation	2005 Valuation and 2006 Extrapolation
	%	
Investment rate of return	6.55	6.30
Inflation rate		
Next 3 years	4.75	2.75
Thereafter	2.75	2.75
Salary escalation rate*		
Next 3 years	5.50	3.50
Thereafter	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, 2007 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 2008.

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.

Note 10 (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, 2007:

	($ millions)		
	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 1,121	0.8%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	664	0.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	2,646	2.7%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2006 valuation was 12.85%.

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 $15,360 million at December 31, 2007 (2006 $13,919 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, 2007 (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 $138 (2006 $125).

NOTE 13 COMPARATIVE FIGURES

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

NOTE 14 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance and Enterprise, 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.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 375,079	$ 322,659
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed Provincial	1,405,971	1,433,367
Alberta, direct and guaranteed	187	272
Other Provincial, direct and guaranteed	1,984,612	1,701,455
Municipal	68,405	14,209
Corporate, public and private	1,728,298	1,259,605
	5,187,473	4,408,908
Receivable and accrued investment income	51,530	35,365
Liabilities for investment purchases	(4,914)	(2,097)
	-	(871)
	46,616	33,268
	$ 5,609,168	$ 4,764,835

(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, 2007 had an average effective market yield of 6.0% per annum (2006: 4.8% per annum). The following term structure of these securities as at December 31, 2007 is based on the principal amount:

	2007	2006
	%	
under 1 year	1	1
1 to 5 years	6	8
6 to 10 years	19	17
11 to 20 years	18	19
over 20 years	56	55
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 49,530	$ 46,567
Public equities (a) (b)		
Consumer discretionary	209,342	174,582
Consumer staples	84,616	86,340
Energy	503,284	507,842
Financials	604,910	673,062
Health care	11,326	17,134
Industrials	259,573	274,890
Information technology	116,117	128,281
Materials	341,185	386,525
Telecommunication services	113,586	156,927
Utilities	32,516	18,984
	2,276,455	2,424,567
Passive Index	246,931	10,649
	2,523,386	2,435,216
Private Equity Pool	8,392	32,295
Receivable from sale of investments and accrued investment income	34,335	9,550
Liabilities for investment purchases	(20,143)	(5,508)
	14,192	4,042
	$ 2,595,500	$ 2,518,120

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling $433 (2006: $229,940).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 32,545	$ 18,681
Public equities (a) (b)		
Consumer discretionary	155,758	227,037
Consumer staples	121,336	141,649
Energy	159,033	165,395
Financials	266,101	410,996
Health care	204,957	247,055
Industrials	191,926	244,386
Information technology	249,791	308,383
Materials	79,981	76,429
Telecommunication services	42,311	52,664
Utilities	72,059	66,751
	1,543,253	1,940,745
Passive Index	10,785	2,088
	1,554,038	1,942,833
Receivable from sale of investments and accrued investment income	5,724	11,401
Liabilities for investment purchases	(25,501)	(7,068)
	(19,777)	4,333
	$ 1,566,806	$ 1,965,847

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of US equity index swap and futures contracts totalling $821,596 (2006: $1,215,337).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITES

Schedule D

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 51,586	$ 66,345
Public equities (i) (ii)		
Consumer discretionary	300,672	345,175
Consumer staples	180,610	171,918
Energy	229,077	191,506
Financials	538,639	779,898
Health care	182,378	188,947
Industrials	394,156	363,778
Information technology	176,445	176,798
Materials	218,330	194,062
Telecommunication services	219,160	169,695
Utilities	122,706	125,921
	2,562,173	2,707,698
Passive Index	57,320	67,203
Receivable from sale of investments and accrued investment income	13,774	37,988
Liabilities for investment purchases	(30,448)	(67,356)
	(16,674)	(29,368)
	$ 2,654,405	$ 2,811,878

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $295,774 (2006: $423,448).

(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:

	Plan's Share ($ thousands) 2007	2006
United Kingdom	$ 501,754	$ 582,808
Japan	461,560	532,109
France	278,477	297,905
Germany	259,575	203,747
Switzerland	178,311	156,477
Netherlands	118,564	155,092
Spain	102,104	110,419
Italy	86,485	95,288
Australia	105,439	85,974
Finland	53,215	39,054
Other	416,689	448,825
	$ 2,562,173	$ 2,707,698

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 1,779	$ 761
Real estate (a)		
Office	718,603	730,834
Retail	505,583	431,799
Industrial	231,952	187,191
Residential	88,831	71,208
	1,544,969	1,421,032
Passive Index	58,088	50,963
Receivable from sale of investments and accrued investment income	764	934
	$ 1,605,600	$ 1,473,690

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

	($ thousands) Plan's Share 2007	2006
Ontario	$ 833,774	$ 814,926
Alberta	546,521	444,158
Quebec	132,404	134,237
British Columbia	32,270	27,711
	$ 1,544,969	$ 1,421,032

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2007

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

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, 2007 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, 2007 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 11, 2008

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2007

	($ thousands)	
	2007	2006
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 2,351,906	$ 2,237,985
Accrued investment income and accounts receivable	192	513
Contributions receivable		
Employees	3,506	3,128
Employers	5,996	5,347
	2,361,600	2,246,973
Liabilities		
Accounts payable	300	81
Net assets available for benefits	2,361,300	2,246,892
Accrued Benefits		
Actuarial value of accrued benefits	2,445,641	2,253,657
Deficiency	$ (84,341)	$ (6,765)

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

Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Net investment income (Note 6)		
Investment income	$ 65,059	$ 279,150
Investment expenses	(5,081)	(3,958)
	59,978	275,192
Member service operations		
Contributions		
Current and optional service		
Employees	42,606	38,774
Employers	71,857	65,229
Pension benefits	(93,819)	(84,937)
Refunds to members	(5,987)	(4,653)
Additional Government contribution (Note 7)	40,000	-
Transfers from other plans, net	985	322
Member service expenses (Note 8)	(1,212)	(1,207)
	54,430	13,528
Increase in net assets	114,408	288,720
Net assets available for benefits at beginning of year	2,246,892	1,958,172
Net assets available for benefits at end of year	$ 2,361,300	$ 2,246,892

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

Statement of Changes in Accrued Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Increase in accrued benefits		
Interest accrued on benefits	$ 155,252	$ 143,120
Benefits earned	83,538	75,738
	238,790	218,858
Decrease in accrued benefits		
Benefits paid and transfers	(98,821)	(89,268)
Other changes in accrued benefits		
Net experience losses	28,942	-
Losses due to changes in actuarial assumptions (Note 9(a))	23,073	-
	52,015	-
Net increase in accrued benefits	191,984	129,590
Accrued benefits at beginning of year	2,253,657	2,124,067
Accrued benefits at end of year (Note 9)	$ 2,445,641	$ 2,253,657

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

Statement of Changes in Deficiency

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Deficiency at beginning of year	$ (6,765)	$ (165,895)
Increase in net assets available for benefits	114,408	288,720
Net increase in accrued benefits	(191,984)	(129,590)
Deficiency at end of year	$ (84,341)	$ (6,765)

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

Notes to the Financial Statements

December 31, 2007

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* 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. The Minister of Finance acts as trustee for the Plan.

b) PLAN FUNDING

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, 2007 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.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

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.

Note 1 (continued)

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

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.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

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. 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.

Note 2 (continued)

i) 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.

ii) The fair value of private equity and income investments are 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 earnings analyses.

iii) 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 a combination of methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

iv) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

v) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

c) INCOME RECOGNITION

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on all 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.

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.

Note 2 (continued)

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, absolute return strategies, and real estate investments. 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, absolute return strategies, and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments, absolute return strategies, and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations 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.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	($ thousands)					
	2007			2006		
	Fair Value			Fair Value		
			%			%
Fixed Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$	10,780	0.5	$	11,844	0.5
Universe Fixed Income Pool (b)		666,007	28.4		610,563	27.3
Private Mortgage Pool (c)		102,316	4.3		99,239	4.4
Real rate of return bonds (d)		80,725	3.4		65,908	2.9
Currency Alpha Pool (e)		3,202	0.1		5,479	0.3
Tactical Asset Allocation Pool (f)		3,725	0.2		7,732	0.3
		866,755	36.9		800,765	35.7
Canadian Equities (Schedule B)						
Canadian Structured Equity Pool (g)		112,959	4.8		198,157	8.9
Canadian Pooled Equities Fund (h)		137,914	5.9		132,596	5.9
Canadian Multi-Cap Pool (i)		150,411	6.4		53,960	2.4
Canadian Equity Enhanced Index Pool (j)		67,856	2.9		63,835	2.9
Canadian Large Cap Equity Pool (k)		50,516	2.1		45,272	2.0
Growing Equity Income Pool (l)		30,637	1.3		27,454	1.2
Private Equity Pool		1,194	-		4,593	0.2
Tactical Asset Allocation Pool -futures contract (f)		-	-		(31,114)	(1.4)
		551,487	23.4		494,753	22.1
United States Equities (Schedule C)						
U.S. Structured Equity Pool (m)		238,667	10.1		244,566	10.9
U.S. Small/Mid Cap Equity Pool (n)		38,941	1.7		36,894	1.7
Portable Alpha U.S. Pool (o)		34,627	1.5		32,884	1.5
Growing Equity Income Pool (l)		6,651	0.3		8,977	0.4
Tactical Asset Allocation Pool -futures contract (f)		-	-		31,114	1.4
		318,886	13.6		354,435	15.9
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (p)		273,154	11.6		279,349	12.5
Emerging Markets Equity Pool (q)		15,986	0.7		24,852	1.1
EAFE Structured Equity Pool(r)		74,402	3.1		60,243	2.7
EAFE Passive Equity Pool		-	-		9,983	0.4
		363,542	15.4		374,427	16.7
Real Estate Equities (Schedule E)						
Private Real Estate Pool (s)		173,182	7.4		157,730	7.1
Alternative Investments						
Private Equity Pools (t)		37,905	1.6		29,491	1.3
Private Income Pools (u)		23,755	1.0		17,697	0.8
Absolute Return Strategy Pool (v)		16,394	0.7		8,687	0.4
		78,054	3.3		55,875	2.5
Total equities		1,485,151	63.1		1,437,220	64.3
Total investments	$	2,351,906	100.0	$	2,237,985	100.0

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 is managed with the objective of providing competitive returns comparable to the total return of the DEX Bond Universe 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 DEX Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The pool primarily 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 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.

f) 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 December 31, 2007, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

g) 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

h) 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.

i) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

j) 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.

k) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities which are 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.

Note 3 (continued)

l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income 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 Dividend Paying Stock Index.

m) 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

n) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. Small/Mid Cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the U.S. Small/Mid Cap Pool 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. 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 a four-year period.

p) The EAFE (Europe, Australasia and Far East) 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.

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

r) The EAFE Structured Equity Pool'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.

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 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.

t) 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.

u) 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.

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

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 the following long-term policy asset mix benchmark:

Short-term	0.5%
Fixed income	32.5%
Canadian equity	22.0%
U.S. equity	14.0%
Non-North American equity	16.0%
Real estate	7.0%
Alternative investments	8.0%

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. 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. 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. 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, 2007:

Note 5 (continued)

($ thousands)

	2007					2006	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%					
Credit default swap contracts	2	20	78	$ 691,323	$ (1,972)	$ 322,494	$ 339
Equity index swap contracts	95	5	-	564,026	(5,891)	483,740	16,104
Swap option contracts	52	-	48	381,228	72	564,505	(412)
Interest rate swap contracts	5	13	82	369,156	(1,505)	479,319	(265)
Forward foreign exchange contracts	100	-	-	189,813	(349)	189,322	(676)
Equity index futures contracts	100	-	-	162,427	3,998	166,706	4,912
Cross-currency interest rate swaps	21	45	34	158,231	11,092	140,716	4,734
Bond index swap contracts	100	-	-	81,906	2,555	172,144	651
				$ 2,598,110	$ 8,000	$ 2,518,946	$ 25,387

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). Credit exposure is limited by dealing with counter-parties with good credit standing.

NOTE 6 NET INVESTMENT INCOME

a) INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	($ thousands)	
	2007	2006
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ (29,124)	$ 194,333
Interest income	66,123	57,727
Dividend income	20,150	19,564
Real estate operating income	7,140	6,910
Securities lending income	770	616
	65,059	279,150
Investment expenses	(5,081)	(3,958)
Net investment income	$ 59,978	$ 275,192

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

	($ thousands)	
	2007	2006
Fixed Income Securities	$ 16,025	$ 33,020
Canadian Equities	49,137	85,516
Foreign Equities		
United States	(36,137)	41,278
Non-North American	(11,021)	82,131
Real Estate Equities	31,371	27,634
Alternative Investments	10,603	5,613
Net investment income	$ 59,978	$ 275,192

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	2.7%	9.9%	6.2%
Policy Benchmark**	2.6%	9.3%	5.7%

* 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 and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

Note 6 (continued)

b) INVESTMENT EXPENSES

On January 1, 2008, the investment operations of the Department of Finance were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance. It provides the day to day investment services for the Fund's investment portfolio. AIMCo invests the assets for the long-term benefit of the Plan's membership and in accordance with the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pool investment funds. Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts.

Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services provided by AIMCo and external managers include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

	($ thousands)	
	2007	**2006**
Investment operations of Alberta Finance [1]	1,177	910
External manager fees	3,904	3,048
Total investment expenses	5,081	3,958
Investment expenses as a percentage of net assets	0.22%	0.18%

[1] On January 1, 2008, the investment operations of the Department of Finance were transferred to AIMCO.

NOTE 7 ADDITIONAL GOVERNMENT CONTRIBUTION

In March 2007, the *Appropriation (Supplementary Supply) Act 2007* was passed authorizing the Province to make a lump sum payment of $40,000 to the Plan toward the Government's share of the Plan's unfunded actuarial deficiency.

NOTE 8 MEMBER SERVICE EXPENSES

Member service expenses, including Board costs in the amount of $40 (2006 $49) 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.

Total Plan expenses including investment and member service expenses amounted to $778 per member (2006 $675 per member). Total Plan expenses including investment and member service expenses amounted to 0.27% (2006: 0.23%) of assets under administration.

NOTE 9 ACCRUED BENEFITS

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2006 by Aon Consulting Inc. and was then extrapolated to December 31, 2007. Differences between 2006 results and the 2006 actuarial valuation are accounted for as experience gains and losses in the current year.

Actuarial valuations were determined using the projected accrued 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 and the Board, Alberta Finance adopted these best estimates.

The major assumptions used were:

	2006 Valuation and 2007 Extrapolation	2004 Valuation and 2006 Extrapolation
	%	
Asset real rate of return		
For 2008-2009	3.25	4.00
Thereafter	4.00	4.00
Inflation rate		
For 2008-2009	3.50	2.75
Thereafter	2.75	2.75
Investment rate of return	6.75	6.75
Salary escalation rate*		
For 2008-2009	4.00	3.25
Thereafter	3.25	3.25
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

* 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.

Note 9 (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, 2007:

	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%	$169.7	1.4%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	30.8	0.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	330.4	4.0%

* The current service cost of accruing benefits (excluding 0.4% allowance for administration expenses) as a percentage of pensionable earnings as determined by the December 31, 2006 valuation was 20.8%.

NOTE 10 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 $2,297 million at December 31, 2007 (2006 $2,028 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 7.3% of pensionable earnings shared between employees and employers until December 31, 2017. The special payments have been included in the rates in effect at December 31, 2007 (see Note 1(b)).

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2007 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.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)	
	Plan's Share	
	2007	**2006**
Deposits and short-term securities	$ 19,575	$ 24,625
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	222,366	222,320
Provincial		
Alberta, direct and guaranteed	199	232
Other, direct and guaranteed	95,038	97,833
Municipal	306	288
Corporate, public and private	517,879	448,734
	835,788	769,407
Receivable from sale of investments and accrued investment income	12,047	7,479
Liabilities for investment purchases	(655)	(746)
	11,392	6,733
	$ 866,755	$ 800,765

(a) Fixed income securities held as at December 31, 2007 had an average effective market yield of 5.24% per annum (2006 5.17% per annum). The following term structure of these securities as at December 31, 2007 was based on the principal amount:

	2007	**2006**
	%	**%**
under 1 year	5	2
1 to 5 years	27	29
6 to 10 years	35	34
11 to 20 years	13	13
over 20 years	20	22
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Plan's Share	
	2007	**2006**
Deposits and short-term securities	$ 2,642	$ 2,341
Public equities (a) (b)		
Consumer discretionary	29,065	27,163
Consumer staples	11,602	14,927
Energy	142,650	126,687
Financials	159,018	153,545
Health care	1,647	3,725
Industrials	29,936	25,385
Information technology	27,304	22,022
Materials	83,623	73,240
Telecommunication services	33,178	26,969
Utilities	5,067	4,775
	523,090	478,438
Passive index	22,244	-
	545,334	478,438
Private Equity Pool	1,194	4,593
Receivable from sale of investments and accrued investment income	4,310	9,804
Liabilities for investment purchases	(1,993)	(423)
	2,317	9,381
	$ 551,487	$ 494,753

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling $198,852 (2006: $207,140).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index and S&P 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands)	
	Plan's Share	
	2007	**2006**
Deposits and short-term securities	$ 4,421	$ 1,005
Public equities (a) (b)		
Consumer discretionary	30,193	38,417
Consumer staples	30,330	30,415
Energy	38,643	32,980
Financials	56,390	80,103
Health care	38,615	42,154
Industrials	38,047	40,710
Information technology	52,589	53,002
Materials	12,248	11,407
Telecommunication services	10,532	11,108
Utilities	12,538	12,899
	320,125	353,195
Passive index	652	133
	320,777	353,328
Receivable from sale of investments and accrued investment income	1,312	845
Liabilities for investment purchases	(7,624)	(743)
	(6,312)	102
	$ 318,886	$ 354,435

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling $222,163 (2006: $252,181).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 6,580	$ 9,535
Public equities (a) (b)		
Consumer discretionary	40,731	45,698
Consumer staples	25,304	22,826
Energy	30,966	25,472
Financials	76,506	103,737
Health care	24,588	24,929
Industrials	52,486	47,742
Information technology	23,611	23,241
Materials	30,523	26,065
Telecommunications services	29,082	22,323
Utilities	17,269	16,911
	351,066	358,944
Passive index	8,749	10,198
Receivable from sale of investments and accrued investment income	1,778	5,430
Liabilities for investment purchases	(4,631)	(9,680)
	(2,853)	(4,250)
	$ 363,542	$ 374,427

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $77,740 (2006: $61,282).

(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.

	($ thousands) Plan's Share 2007	2006
United Kingdom	$ 69,442	$ 77,735
Japan	63,926	70,610
France	37,927	38,976
Germany	35,078	26,808
Switzerland	24,251	20,812
Netherlands	15,406	20,083
Australia	15,391	11,751
Spain	14,094	14,532
Italy	12,039	12,610
Hong Kong	7,306	6,262
Other	56,206	58,765
	$ 351,066	$ 358,944

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 192	$ 81
Real estate (a)		
Office	77,509	78,222
Retail	54,533	46,216
Industrial	25,019	20,035
Residential	9,581	7,621
	166,642	152,094
Passive index	6,266	5,455
Receivable from sale of investments and accrued investment income	82	100
	$ 173,182	$ 157,730

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

	($ thousands) Plan's Share 2007	2006
Ontario	$ 89,932	$ 87,222
Alberta	58,948	47,539
Quebec	14,281	14,367
British Columbia	3,481	2,966
	$ 166,642	$ 152,094

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

Year Ended March 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

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, 2008 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, 2008 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 16, 2008

Statement of Net Assets Available for Benefits and Accrued Benefits

As at March 31, 2008

	($ thousands)	
	2008	2007
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 98,122	$ 102,134
Contributions receivable	272	216
Accounts receivable	100	-
	98,494	102,350
Liabilities		
Accounts payable	25	71
Net assets available for benefits	98,469	102,279
Accrued Benefits		
Accrued benefits (Note 7)	102,975	96,164
Actuarial Surplus (Deficit) (Note 8)	$ (4,506)	$ 6,115

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended March 31, 2008

	($ thousands)	
	2008	2007
Increase in assets		
Net investment income (loss) (Note 9)		
Investment income (loss)	$ (1,351)	$ 10,317
Investment expenses (Note 10)	(212)	(147)
	$ (1,563)	$ 10,170
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	902	823
Province of Alberta	2,334	1,651
	3,236	2,474
	1,673	12,644
Decrease in assets		
Pension benefits and refunds	5,405	4,664
Administration expenses (Note 10)	78	97
	5,483	4,761
Increase (Decrease) in net assets	(3,810)	7,883
Net assets available for benefits at beginning of year	102,279	94,396
Net assets available for benefits at end of year	$ 98,469	$ 102,279

See accompanying notes and schedules.

Notes to the Financial Statements

March 31, 2008
(all dollar values in thousands, unless otherwise stated)

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, 2008 are 7.00% of *capped salary* for plan members and 16.16% of *capped salary* for the Province. The rates are 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.

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.

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

The methods used to determine fair value of investments held either by the plan or by pooled investment funds is 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 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.

Note 2 (continued)

iii) The fair value of private income investments is estimated by managers or general partners of 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 earnings analyses.

iv) The fair value of private 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 the discounted cash flows.

v) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. 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.

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.

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) Credit default swaps are valued based on discount 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.

Note 2 (continued)

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.

NOTE 3 INVESTMENTS (Schedules B to F)

	($ thousands)			
	2008		2007	
	Fair Value		Fair Value	
Fixed Income		%		%
Fixed Income Securities (Schedule B)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 935	1.0	$ 1,152	1.1
Universe Fixed Income Pool (b)	37,201	37.8	36,931	36.2
Private Mortgage Pool (c)	5,393	5.5	5,510	5.4
Currency Alpha Pool (d)	61	0.1	49	0.1
Tactical Asset Allocation Pool (e)	148	0.2	331	0.3
	43,738	44.6	43,973	43.1
Equities				
Canadian Equities (Schedule C)				
Canadian Multi-Cap Equity Pool (f)	5,253	5.3	2,130	2.1
Canadian Pooled Equities Fund (g)	4,691	4.7	5,118	5.0
Canadian Structured Equity Pool (h)	3,936	4.0	7,466	7.3
Canadian Equity Enhanced Index Pool (i)	2,414	2.5	2,453	2.4
Canadian Large Cap Equity Pool (j)	1,646	1.7	1,816	1.8
Growing Equity Income Pool (k)	937	1.0	1,017	1.0
Private Equity Pool	80	0.1	193	0.2
Tactical Asset Allocation Pool(e)	-	-	(1,445)	(1.4)
	18,957	19.3	18,748	18.4
United States Equities (Schedule D)				
U.S. Structured Equity Pool (l)	8,890	9.1	10,133	9.9
Portable Alpha US Equity Pool (m)	3,205	3.3	3,268	3.2
US Mid/Small Cap Equity Pool (n)	1,635	1.7	1,869	1.8
Growing Equity Income Pool (k)	252	0.3	335	0.3
Tactical Asset Allocation Pool (e)	-	-	1,429	1.4
	13,982	14.2	17,034	16.6
Non-North American Equities (Schedule E)				
EAFE Active Equity Pool (o)	10,449	10.6	11,682	11.4
EAFE Structured Equity Pooled Fund (p)	2,571	2.6	2,757	2.7
Emerging Markets Equity Pool (q)	639	0.7	998	1.0
	13,659	13.9	15,437	15.1
Real Estate Schedule (F)				
Private Real Estate Pool (r)	6,548	6.7	6,198	6.1
Alternative Investments				
Private Income Pool (s)	1,238	1.3	744	0.7
	54,384	55.4	58,161	56.9
Total investments	$ 98,122	100.0	$ 102,134	100.0

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 DEX Bond Universe 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 DEX Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The pool invests primarily 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.

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, 2008 the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

f) The Canadian Multi-Cap Equity 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 comprised of investments in the External Managers Canadian Multi-Cap Pool. 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

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 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

i) The Canadian Equity Enhanced Index Pool consist 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.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are 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 style and unique market capitalization focus.

k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income 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.

Note 3 (continued)

l) The US 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 invest in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

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 total return of the S&P 500 Index over a four-year period.

n) The US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager 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 for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style 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. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

p) The EAFE Structured Equity Pool'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.

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

r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. 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. The Pool is intended to provide diversification from the securities market.

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 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.

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following benchmark long-term policy asset mix for investments:

Fixed income securities	42.0%
Canadian equities	15.0%
U.S. equities	16.0%
Non-North American equities	16.0%
Real estate	5.0%
Private income	4.0%
Absolute return strategies	2.0%

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. 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 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. 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. 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.

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) Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified 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 specified period of time.

Note 5 (continued)

The following is a summary of the Registered Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2008

	%			($ thousands)			
	2008					2007	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
Equity index swap contracts	93	7	-	$ 20,912	$ 72	$ 22,521	$ (12)
Credit default swap contracts	2	19	79	39,969	(244)	55,749	(189)
Interest rate swap contracts	5	12	83	19,601	(148)	22,009	(41)
Swap option contracts	44		56	20,051	8	41,963	3
Equity index futures contracts	100	-	-	5,189	169	8,103	183
Cross-currency interest rate swap	15	49	36	5,988	101	7,121	202
Forward foreign exchange contracts	100	-	-	5,482	(72)	3,882	(18)
Bond index swap contracts	100	-	-	3,651	146	13,062	15
				$ 120,843	$ 32	$ 174,410	$ 143

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

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

NOTE 6 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (UNREGISTERED PLAN)

The Unregistered Plan was 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, 2008 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.

A summary of the net assets available for benefits for the Unregistered Plan as at March 31, 2008 and changes in net assets available for benefits for the year then ended is as follows:

Note 6 (continued)

	($ thousands) 2008	2007
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	$ 4,711	$ 4,963
Income tax refundable	7,999	6,783
Accounts payable, net	(1,179)	(603)
	11,531	11,143
Liabilities		
Actuarial value of accrued benefits	75,279	65,611
Excess of liabilities over assets	(63,748)	(54,468)
Reserve Fund (a)	62,014	58,406
Net assets (liabilities)	**$ (1,734)**	**$ 3,938**

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.

	($ thousands) 2008	2007
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	$ 989	$ 1,063
Province of Alberta	990	1,063
Investment income	188	174
	2,167	2,300
Decrease in assets		
Increase in actuarial value of accrued benefits	(9,668)	(5,136)
Pension benefits	(1,702)	(1,006)
Administration costs	(77)	(78)
	(11,447)	(6,220)
Increase in the Reserve Fund	3,608	12,306
Increase (Decrease) in net assets	(5,672)	8,386
Net assets (liabilities) assets at beginning of year	3,938	(4,448)
Net assets (liabilities) at end of year	**$ (1,734)**	**$ 3,938**

An actuarial valuation for the Unregistered Plan was carried out as at December 31, 2005 by Johnson Inc. and was extrapolated to March 31, 2008. 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, 2008. 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, 2008 Extrapolation %	December 31, 2005 Valuation and March 31, 2007 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

The following statement shows the principal components of the change in the value of accrued benefits.

	($ thousands)	
	2008	**2007**
Accrued pension benefits at beginning of year	$ 96,164	$ 88,612
Interest accrued on benefits	6,251	5,760
Net experience losses (gains)	2,531	(1,284)
Benefits earned	3,434	3,318
Net benefits paid	(5,405)	(4,664)
Impact of Judicial Compensation Commission	-	4,422
Accrued pension benefits at end of year	**$ 102,975**	**$ 96,164**

Note 7 (continued)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

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, 2008:

	Sensitivities		
	Changes in Assumptions %	**Decrease in Plan Surplus** *($ millions)*	**Increase in Current Service Cost***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 6.8	1.4%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.2	-
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	1.0%	11.2	2.0%

* As a % of capped pensionable earnings

NOTE 8 ACTUARIAL SURPLUS

Any assets remaining in the Registered Plan after all benefits are paid on complete wind-up must be returned to the Province of Alberta.

NOTE 9 NET INVESTMENT INCOME (LOSS)

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

	($ thousands)	
	2008	**2007**
Investment income (loss)		
Net realized and unrealized gains on investments including those arising from derivative transactions	$ (5,290)	$ 6,203
Interest income	2,840	2,994
Dividend income	801	824
Real estate operating income	266	272
Securities lending income	32	24
	(1,351)	10,317
Investment Expenses	(212)	(147)
	$ (1,563)	**$ 10,170**

Note 9 (continued)

The following is a summary of the Registered Plan's net investment income (loss) by type of investments:

	($ thousands)	
	2008	**2007**
Fixed Income Securities	$ 1,425	$ 2,338
Canadian Equities	602	2,462
Foreign Equities		
United States	(2,779)	1,510
Non-North American	(1,878)	2,501
Real Estate	983	1,343
Private Income	84	16
	$ (1,563)	**$ 10,170**

NOTE 10 INVESTMENT AND ADMINISTRATION EXPENSES

	($ thousands)	
	2008	**2007**
Investment Expenses		
Investment management expenses	$ 42	$ 40
Pooled funds management and associated custodial fees	170	107
	212	147
Administration Expenses	78	97
	$ 290	**$ 244**

Administration expenses comprise of general administration costs paid to Alberta Pensions Administration Corporation on a cost-recovery basis. The Investment management and Pooled funds management and associated custodial fees, which have been deducted from investment income (loss) of the pools, are excluded from administration expenses.

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 and only affect the current year allocation. These policies will be reviewed once every three years by the Minister.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

SCHEDULE OF INVESTMENT RETURNS

Schedule A

March 31, 2008

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.

Investment returns and the relevant benchmarks for the Plan for the one-year and four-year periods ended March 31, 2008 are as follows:

	One Year Return				4 Year Compound Annualized
	2008	**2007**	**2006**	**2005**	**Return**
Annual Time-weighted rates of return					
Short-term fixed Income	**4.4**	**4.1**	**2.9**	**2.4**	**3.5**
DEX 91-day T-Bill Index	*4.6*	*4.2*	*2.8*	*2.2*	*3.5*
Value added (lost) from active management	*(0.2)*	*(0.1)*	*0.1*	*0.2*	*0.0*
Long-term fixed income	**3.2**	**5.9**	**5.7**	**5.6**	**5.1**
DEX Bond Universe Index	*5.8*	*5.5*	*4.9*	*5.0*	*5.3*
Value added (lost) from active management	*(2.6)*	*0.4*	*0.8*	*0.6*	*(0.2)*
Canadian equities	**2.5**	**13.2**	**28.8**	**15.0**	**14.5**
S&P/TSX Composite Index	*4.0*	*11.4*	*28.4*	*13.9*	*14.1*
Value added (lost) from active management	*(1.5)*	*1.8*	*0.4*	*1.1*	*0.4*
United States equities	**(17.7)**	**10.4**	**8.1**	**(2.1)**	**(0.9)**
Standard &Poor's 1500 Index	*(15.4)*	10.5	7.8	(1.5)	(0.2)
Value added (lost) from active management	*(2.3)*	(0.1)	0.3	(0.6)	(0.7)
Non-North American equities	**(12.2)**	**17.6**	**24.1**	**7.6**	**8.4**
MSCI EAFE Index	*(13.2)*	*18.7*	*20.0*	*6.2*	*7.0*
Value added (lost) from active management	*1.0*	*(1.1)*	*4.1*	*1.4*	*1.4*
Private Income	**8.8**	**4.4**	**n/a**	**n/a**	**n/a**
Vconsumer Price Index plus 6.0%	*7.8*	*3.3*	*n/a*	*n/a*	*n/a*
Value added (lost) from active management	*1.0*	*1.1*	*n/a*	*n/a*	*n/a*
Real Estate	**16.8**	**25.0**	**21.3**	**17.3**	**20.0**
IPD All Property Index	*14.6*	*20.5*	*17.1*	*21.3*	*16.3*
Value added (lost) from active management	*2.2*	*4.5*	*4.2*	*(0.4)*	*3.7*
Overall	**(1.6)**	**11.0**	**14.3**	**7.3**	**7.6**
Policy Benchmark	***(0.2)***	***10.3***	***12.7***	***6.8***	***7.2***
Value added (lost) from active management	(1.4)	0.7	1.6	0.5	0.4

The current sector benchmark indices are as of March 31, 2008. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule B

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 1,616	$ 1,421
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	8,610	8,985
Alberta, direct	12	13
Other Provincial, direct and guaranteed	5,169	5,619
Municipal	2	17
Corporate, public and private	28,004	27,710
	41,797	42,344
Receivable from sale of investments and accrued investment income	737	414
Accounts payable and accrued liabilities	(412)	(206)
	325	208
	$ 43,738	**$ 43,973**

a) Fixed income securities held as at March 31, 2008 had an average effective market yield of 4.98% (2007: 4.58%) per annum. The following term structure of these securities as at March 31, 2008 is based on principal amount:

	%	
	2008	**2007**
under 1 year	4	4
1 to 5 years	29	30
6 to 10 years	38	37
11 to 20 years	11	10
over 20 years	18	19
	100	**100**

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 431	$ 122
Public Equities (a) (b)		
Consumer discretionary	921	1,142
Consumer staples	429	491
Energy	4,989	4,692
Financials	5,111	6,086
Health care	28	126
Industrials	986	952
Information technology	885	769
Materials	3,151	2,836
Telecommunication services	1,018	1,106
Utilities	161	161
	17,679	18,361
Pooled investment funds	782	-
Private Equity Pool	80	193
Receivable from sale of investments and accrued investment income	112	276
Accounts payable and accrued liabilities	(127)	(204)
	(15)	72
	$ 18,957	**$ 18,748**

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $6,772 (2007: $8,334)

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 407	$ 154
Public Equities (a) (b)		
Consumer discretionary	1,321	1,843
Consumer staples	1,416	1,543
Energy	1,779	1,636
Financial	2,402	3,655
Health care	1,642	2,034
Industrials	1,793	1,986
Information technology	2,206	2,525
Materials	599	580
Telecommunication services	445	552
Utilities	537	633
	14,140	16,987
Pooled investment fund	26	-
Receivable from sale of investments and accrued investment income	79	113
Accounts payable and accrued liabilities	(670)	(220)
	(591)	(107)
	$ 13,982	**$ 17,034**

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of US equity index swaps and futures contracts totalling $10,404 (2007: $12,392).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule E

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 250	$ 168
Public Equities (a) (b)		
Consumer discretionary	1,434	1,836
Consumer staples	1,147	1,004
Energy	1,130	999
Financial	2,729	4,188
Health care	951	906
Industrials	1,890	2,170
Information technology	803	1,003
Materials	1,253	1,103
Telecommunication services	1,034	903
Utilities	726	757
	13,097	14,869
Emerging market equity pools	354	416
Receivable from sale of investments and accrued investment income	203	186
Accounts payable and accrued liabilities	(245)	(202)
	(42)	(16)
	$ 13,659	**$ 15,437**

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Non-North American public equities includes the notional amount of Non-North American equity index swaps contracts totalling $2,795 (2007: $2,731).

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

	($ thousands)	
	Plan's Share	
	2008	**2007**
United Kingdom	$ 2,849	$ 3,122
Japan	2,498	2,932
France	1,470	1,675
Germany	1,272	1,186
Switzerland	875	822
Netherlands	538	721
Spain	538	613
Australia	549	570
Italy	468	484
Hong Kong	330	264
Other	2,064	2,896
	$ 13,451	**$ 15,285**

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule F

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 9	$ 7
Real estate (a)		
Office	2,915	2,973
Retail	2,045	1,954
Industrial	970	774
Residential	370	271
	6,300	5,972
Participation units	236	215
Accrued income and accounts receivable	3	4
	$ 6,548	**$ 6,198**

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

	($ thousands)	
	Plan's Share	
	2008	**2007**
Ontario	$ 3,383	$ 3,493
Alberta	2,245	1,817
Quebec	537	548
British Columbia	135	114
	$ 6,300	**$ 5,972**

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

December 31, 2007

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

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, 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 Accrued Benefits and Net Assets Available for Benefits of the Plan as at December 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 11, 2008

Statement of Accrued Benefits and Net Assets Available for Benefits

As at December 31, 2007

	($ thousands)	
	2007	**2006**
Accrued Benefits		
Actuarial value of accrued pension benefits (Note 3)	$ 705,460	$ 728,738
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 4)	1,416	1,357
Accounts receivable	-	130
	1,416	1,487
Liabilities		
Accounts payable	21	10
Net assets available for benefits	1,395	1,477
Excess of actuarial value of accrued pension benefits over net assets	$ 704,065	$ 727,261

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	**2006**
Increase in assets		
Contributions from the Province of Alberta	$ 58,350	$ 58,850
Investment income	85	66
	58,435	58,916
Decrease in net assets		
Pension benefits	58,258	57,977
Administration expenses (Note 5)	259	270
Refunds and transfer to members	-	3
	58,517	58,250
Increase (Decrease) in net assets	(82)	666
Net assets available for benefits at beginning of year	1,477	811
Net assets available for benefits at end of year	$ 1,395	$ 1,477

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2007
(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, 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. The Minister of Finance acts as trustee for the Plan.

b) PLAN FUNDING

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of 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.

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.

Note 2 (continued)

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, 2007.

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 and the Board, Alberta Finance adopted these best estimates.

The major assumptions used were as follows:

	2007 Extrapolation	2005 Valuation and 2006 Extrapolation
	%	%
Real discount rate	2.25	2.25
Inflation rate	2.75	2.75
Nominal discount rate	5.00	5.00
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2005 using Scale AA	

Note 3 (continued)

The following statement shows the principal components of the change in the actuarial value of accrued pension benefits.

	($ thousands)	
	2007	**2006**
Actuarial value of accrued pension benefits at beginning of year	$ 728,738	$ 684,399
Interest accrued on benefits	34,980	36,082
Net benefits paid	(58,258)	(57,980)
Net experience losses	-	57,164
Changes in actuarial assumptions	-	9,073
Actuarial value of accrued pension benefits at end of year	$ 705,460	$ 728,738

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2007:

	($ millions)	
	Sensitivities	
	Changes in Assumptions	**Increase in Plan Deficiency**
	%	
Inflation rate increase holding the nominal discount rate assumption constant	1.0%	$ 44.6
Nominal discount rate decrease holding the inflation rate assumption constant	(1.0%)	72.6

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, 2007, securities held by the Fund have an average effective market yield of 4.88% per annum (2006: 4.60% per annum).

NOTE 5 ADMINISTRATION EXPENSES

	($ thousands)	
	2007	**2006**
General administration costs	$ 243	$ 245
Investment management costs	10	10
Actuarial fees	6	15
	$ 259	$ 270

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.

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 $104 per member (2006 $107 per member).

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

Year Ended December 31, 2007

AUDITOR'S REPORT

To the Minister of Finance and Enterprise 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, 2007 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (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, 2007 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 20, 2008

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2007

	($ thousands)	
	2007	2006
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,845,067	$ 5,724,839
Contributions receivable (Note 6)	21,595	16,747
Accrued investment income and accounts receivable	1,161	1,646
	5,867,823	5,743,232
Liabilities		
Accounts payable	1,893	1,208
Net assets available for benefits	5,865,930	5,742,024
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	5,958,000	5,589,000
Surplus (Deficiency)	$ (92,070)	$ 153,024

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

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Increase in assets		
Net investment income (Note 8)		
Investment income	$ 122,015	$ 720,288
Investment expenses	(17,945)	(12,870)
	104,070	707,418
Contributions		
Current and optional service		
Employers	145,178	121,768
Employees	148,016	124,671
Transfers from other plans	8,066	7,018
	405,330	960,875
Decrease in assets		
Pension benefits	202,858	190,772
Refunds to members	56,097	41,448
Transfers to other plans	15,447	27,052
Plan expenses (Note 9)	7,022	6,875
	281,424	266,147
Increase in net assets	123,906	694,728
Net assets available for benefits at beginning of year	5,742,024	5,047,296
Net assets available for benefits at end of year	$ 5,865,930	$ 5,742,024

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

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 389,000	$ 367,000
Benefits earned	232,000	198,000
Actuarial assumption changes	-	50,000
Net experience losses	22,000	-
	643,000	615,000
Decrease in liability for accrued benefits		
Benefits paid	274,000	259,000
Net experience gains	-	2,000
	274,000	261,000
Net increase in liability for accrued benefits	369,000	354,000
Liability for accrued benefits at beginning of year	5,589,000	5,235,000
Liability for accrued benefits at end of year	$ 5,958,000	$ 5,589,000

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

Statement of Changes in Surplus (Deficiency)

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
(Deficiency) at beginning of year	$ 153,024	$ (187,704)
Increase in net assets available for benefits	123,906	694,728
Net increase in liability for accrued benefits	(369,000)	(354,000)
Surplus (Deficiency) at end of year (Note 10)	$ (92,070)	$ 153,024

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

Notes to the Financial Statements

December 31, 2007
(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* 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. The Minister of Finance acts as trustee for the Plan

b) PLAN FUNDING

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, 2007 were 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 AND REFUNDS TO MEMBERS

Members who terminate with at least two years of regular 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. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

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.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

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.

Note 1 (continued)

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. 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:

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 private equity and income investments 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 uses 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 earnings analyses.

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 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 valuators.

vii) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

Note 2 (continued)

c) INCOME RECOGNITION

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on all 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. 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 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 year-end exchange rates.

iii) Forward foreign exchange contracts and equity index future 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.

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 investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation of the Plan's liability for accrued benefits, and

the estimated fair values of the Plan's private investments, absolute return strategies, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

Note 2 (continued)

f) MEASUREMENT UNCERTAINTY (continued)

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 investments, absolute return strategies, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations 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.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	($ thousands)			
	2007		2006	
	Fair Value		Fair Value	
		%		%
CASH AND ABSOLUTE RETURN STRATEGIES				
Money Market				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 50,927	0.9	$ 44,141	0.8
Currency Alpha Pool (b)	8,224	0.1	14,071	0.3
Tactical Asset Allocation Pool (c)	9,316	0.2	19,747	0.3
	68,467	1.1	77,959	1.4
Absolute Return Strategy Pool (d)	162,640	2.8	86,293	1.5
Fixed Income Securities (Schedule A)				
Universe Fixed Income Pool (e)	1,153,646	19.7	1,139,437	19.9
Private Mortgage Pool (f)	202,220	3.5	194,424	3.4
	1,355,866	23.2	1,333,861	23.3
EQUITIES				
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	195,113	3.3	349,554	6.1
Canadian Pooled Equities Fund (h)	236,749	4.1	241,200	4.2
Canadian Equity Enhanced Index Pool (i)	115,760	2.0	115,828	2.0
Canadian Large Cap Equity Pool (j)	87,145	1.5	74,380	1.3
Canadian Multi-Cap Pool (k)	259,018	4.4	98,168	1.7
Growing Equity Income Pool (l)	56,784	1.0	50,691	0.9
Tactical Asset Allocation Pool-futures contracts (c)	-	-	(79,461)	(1.4)
	950,569	16.3	850,360	14.8
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	760,224	13.0	848,443	14.8
Portable Alpha U.S. Pool (n)	236,784	4.0	212,821	3.7
U.S. Small/Mid Cap Equity Pool (o)	138,076	2.4	136,155	2.4
Growing Equity Income Pool (l)	12,327	0.2	16,576	0.3
Tactical Asset Allocation Pool-futures contracts (c)	-	-	79,461	1.4
	1,147,411	19.6	1,293,456	22.6
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	874,730	15.0	902,776	15.8
EAFE Structured Equity Pool(q)	109,966	1.9	113,745	2.0
	984,696	16.9	1,016,521	17.8
Emerging Markets Equity Pool (r)	164,431	2.8	187,218	3.2
	1,149,127	19.7	1,203,739	21.0
Private Equities (s)	53,044	0.9	33,046	0.6
INFLATION SENSITIVE				
Private Real Estate Pool (t) (Schedule E)	417,165	7.1	384,169	6.7
Real rate of return bonds (u)	323,992	5.5	293,721	5.1
Private Income Pools (v)	90,979	1.6	61,463	1.1
Collaterized Commodity Futures Pool (w)	96,488	1.7	86,182	1.5
Timberland Pool (x)	29,319	0.5	20,590	0.4
Total investments	5,845,067	100.0	5,724,839	100.0

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 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.

c) The Tactical Asset Allocation Pool is managed with the objective of providing 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 December 31, 2007, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

d) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Investable Index. Various strategies are used to meet this objective. These strategies are expected to produce absolute positive investment returns with lower volatility.

e) The Universe Fixed Income Pool is managed with the objective of providing competitive returns comparable to the total return of the DEX Bond Universe 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.

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Bond Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The Pool primarily invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

g) 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.

h) 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.

i) The Canadian Equity Enhanced Index Pool consists 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.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities which are 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.

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 comprised of investments in the externally managed Canadian Multi-Cap Pool. 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 (continued)

l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income 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 Dividend Paying Stock Index.

m) 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

n) The Portable Alpha U.S. 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. 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 total return of the S&P 500 Index over a four-year period.

o) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by a manager with expertise in the U.S. Small/Mid 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.

p) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by 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.

q) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool 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 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 (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

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.

t) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through 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.

u) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

v) 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.

Note 3 (continued)

w) The Collateralized Commodity Futures Pool is a passively managed pool with the objective of providing an investment return comparable to the Goldman Sachs Commodity Index (GSCI) Total Return Index. 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.

x) The Timberland Pool provides high income and long investment horizons. The timberland investment is primarily a partnership in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

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.

In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term policy asset mix:

Cash and absolute returns	5.5%
Fixed income securities	20.0%
Equities	56.5%
Inflation sensitive	18.0%

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. 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 directly or 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.

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. 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. 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.

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 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, 2007:

($ thousands)

	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)
		%					
Equity index swap contracts	94	6	-	$ 1,404,732	$ (17,146)	$ 1,329,838	$ 39,854
Credit default swap contracts	2	22	76	1,226,597	(3,646)	621,103	822
Interest rate swap contracts	6	14	80	669,926	(3,098)	937,597	(619)
Swap option contracts	52	-	48	660,356	125	1,053,483	(769)
Forward foreign exchange contracts	100	-	-	638,878	1,523	608,598	(3,071)
Cross-currency interest rate swap contracts	22	49	29	364,785	15,099	376,255	12,074
Equity index futures contracts	100	-	-	327,677	8,428	405,147	12,756
Bond index swap contracts	100	-	-	160,207	5,591	322,604	1,373
Commodity index swaps	-	100	-	96,742	-	85,995	(24)
				$ 5,549,900	$ 6,876	$ 5,740,620	$ 62,396

(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). Credit exposure is limited by dealing with counter-parties with good credit standing.

NOTE 6 CONTRIBUTIONS RECEIVABLE

($ thousands)

	2007	2006
Employers	$ 10,787	$ 8,346
Employees	10,808	8,401
	$ 21,595	$ 16,747

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, 2007.

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 and the Board, Alberta Finance adopted these best estimates.

The major assumptions used were:

	2005 Valuation and 2007 Extrapolation	2005 Valuation and 2006 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.

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, 2007:

	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%	$ 373	0.58%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	311	1.10%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	925	2.43%

* The current service cost as a % of pensionable earnings as determined by the December 31, valuation was 11.52%.

NOTE 8 NET INVESTMENT INCOME

a) INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	($ thousands) 2007	2006
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ (110,512)	$ 513,707
Interest income	151,371	134,642
Dividend income	61,777	52,689
Real estate operating income	17,218	17,590
Securities lending income	2,161	1,660
	122,015	720,288
Investment expenses	(17,945)	(12,870)
	$ 104,070	$ 707,418

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

	($ thousands) 2007	2006
Cash and Absolute Return Strategies	$ 13,250	$ 7,589
Fixed Income Securities	25,977	62,940
Equities		
Canadian Equities	86,983	151,538
United States	(129,441)	158,690
Non-North American	(7,618)	267,741
Private Equities	2,875	2,715
Inflation Sensitive	112,044	56,205
	$ 104,070	$ 707,418

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	1.8%	9.3%	5.8%
Policy Benchmark**	1.3%	8.7%	5.3%

* 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 8 (continued)

b) INVESTMENT EXPENSES

On January 1, 2008, the investment operations of the Department of Finance were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance. It provides the day to day investment services for the Fund's investment portfolio. AIMCo invests the assets for the long-term benefit of the Plan's membership and in accordance with the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services provided by AIMCo and external managers include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

	($ thousands)	
	2007	2006
Investment operations of Alberta Finance [1]	$ 2,689	$ 1,931
External manager fees	15,256	10,939
Total investment expenses	$ 17,945	$ 12,870
Investment expenses as a percentage of net assets	0.31%	0.22%

[1] Effective January 1, 2008, the investment operations of the Department of Finance were transferred to AIMCo.

NOTE 9 PLAN EXPENSES

	($ thousands)	
	2007	2006
General administration costs, including APEX adjustment	$ 6,529	$ 6,360
Board costs	335	321
Actuarial fees	84	103
Other professional fees	74	91
	$ 7,022	$ 6,875

General administration and 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.

Investment management costs totaling $1,122 (2006: $754) were paid to Alberta Finance and do not include pooled funds management and custodial fees, which have been included in the calculation of net investment income (see Note 8).

In 2007, total Plan expenses including pooled funds management and associated investment expenses amounted to $346 per member (2006 $284 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 $ 5,743 million at December 31, 2007 (2006 $5,186 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, 2007 (see Note 1(b)).

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2007 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.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 4,052	$ 5,340
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	244,188	287,045
Provincial		
Alberta, direct and guaranteed	344	433
Other, direct and guaranteed	165,886	183,132
Municipal	530	538
Corporate	920,677	846,053
	1,331,625	1,317,201
Receivable from sale of investments and accrued investment income	20,254	12,646
Liabilities for investment purchases	(65)	(1,326)
	20,189	11,320
	$ 1,355,866	$ 1,333,861

(a) Fixed income securities held as at December 31, 2007 had an average effective market yield of 5.63% per annum (2006 5.57% per annum). The following term structure of these securities as at December 31, 2007 was based on the principal amount:

	2007	2006
	%	
under 1 year	6	2
1 to 5 years	29	31
6 to 10 years	38	37
11 to 20 years	10	10
over 20 years	17	20
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 4,392	$ 4,052
Public equities (a) (b)		
Consumer discretionary	50,219	47,301
Consumer staples	19,980	26,150
Energy	246,546	219,860
Financials	275,201	265,415
Health care	2,838	6,538
Industrials	51,810	44,035
Information technology	46,979	38,254
Materials	144,443	127,299
Telecommunication services	57,477	46,411
Utilities	8,725	8,400
	904,218	829,663
Passive index	37,947	-
	942,165	829,663
Receivable from sale of investments and accrued investment income	7,453	17,413
Liabilities for investment purchases	(3,441)	(768)
	4,012	16,645
	$ 950,569	$ 850,360

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swaps and futures contracts totaling $341,333 (2006: $392,196).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands) Plan's Share	
	2007	2006
Deposits and short-term securities	$ 16,758	$ 4,021
Public equities (a) (b)		
Consumer discretionary	105,958	141,054
Consumer staples	109,447	110,475
Energy	139,060	120,372
Financials	202,136	286,877
Health care	140,134	155,653
Industrials	136,094	148,016
Information technology	189,794	195,680
Materials	44,285	42,094
Telecommunication services	38,299	41,007
Utilities	45,033	46,112
	1,150,240	1,287,340
Passive index	2,312	489
	1,152,552	1,287,829
Receivable from sale of investments and accrued investment income	4,391	4,269
Liabilities for investment purchases	(26,290)	(2,663)
	(21,899)	1,606
	$ 1,147,411	$ 1,293,456

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investments in United States public equities includes the notional amount of U.S. equity index swaps and futures contracts totaling $833,619 (2006: $943,602).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 23,283	$ 24,096
Public equities (a) (b)		
Consumer discretionary	118,926	142,355
Consumer staples	71,063	65,485
Energy	94,461	80,369
Financials	227,596	323,184
Health care	71,569	72,758
Industrials	155,850	146,216
Information technology	72,991	72,094
Materials	89,871	83,263
Telecommunication services	90,669	69,703
Utilities	48,743	53,426
	1,041,739	1,108,853
Passive index	88,130	76,826
Receivable from sale of investments and accrued investment income	8,558	14,160
Liabilities for investment purchases	(12,583)	(20,196)
	(4,025)	(6,036)
	$ 1,149,127	$ 1,203,739

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investments in Non-North American public equities includes the notional amount of EAFE equity index swaps and futures contracts totaling $118,718 (2006: $121,001).

(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:

	($ thousands) Plan's Share 2007	2006
United Kingdom	$ 193,841	$ 239,610
Japan	178,319	203,515
France	107,509	115,451
Germany	100,179	78,551
Switzerland	68,835	59,831
Netherlands	45,683	60,673
Australia	40,831	31,950
Spain	39,441	42,559
Italy	33,420	36,537
Hong Kong	21,887	20,673
Other	211,794	219,503
	$ 1,041,739	$ 1,108,853

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 462	$ 198
Real estate (a)		
Office	186,706	190,517
Retail	131,360	112,563
Industrial	60,266	48,798
Residential	23,080	18,563
	401,412	370,441
Passive index	15,092	13,285
Receivable from sale of investments and accrued investment income	199	245
	$ 417,165	$ 384,169

(a) The following is a summary of the Plan's investments in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2007	**2006**
Ontario	$ 216,629	$ 212,438
Alberta	141,997	115,785
Quebec	34,401	34,994
British Columbia	8,385	7,224
	$ 401,412	$ 370,441

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2007

AUDITOR'S REPORT

To the Minister of Finance and Enterprise 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, 2007 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, 2007 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
April 11, 2008

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2007

	($ thousands)	
	2007	2006
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,475,924	$ 1,464,816
Accounts receivable (Note 6)	2,801	2,953
	1,478,725	1,467,769
Liabilities		
Accounts payable	189	509
Net assets available for benefits	1,478,536	1,467,260
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,543,522	1,424,137
Indexing Fund	13,665	9,849
	1,557,187	1,433,986
Surplus (Deficiency)		
Plan Fund *	(78,651)	33,274
Indexing Fund	-	-
	$ (78,651)	$ 33,274

* The Plan Fund surplus (deficiency) is comprised of a pre-1992 deficiency of $85,843 (2006: $25,135) and a post-1991 surplus of $7,192 (2006: $58,409).

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

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2007

($ thousands)

	2007			2006
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Net investment income (Note 8)				
Investment income	$ 32,363	$ 187	$ 32,550	$ 190,845
Investment expenses	(4,181)	-	(4,181)	(2,898)
	28,182	187	28,369	187,947
Contributions (Note 9)	51,466	3,629	55,095	52,441
	79,648	3,816	83,464	240,388
Decrease in assets				
Pension benefits	65,724	-	65,724	58,744
Refunds and transfers	5,530	-	5,530	4,364
Administration expenses (Note 10)	934	-	934	1,010
	72,188	-	72,188	64,118
Increase in net assets	7,460	3,816	11,276	176,270
Net assets available for benefits at beginning of year	1,457,411	9,849	1,467,260	1,290,990
Net assets available for benefits at end of year	$ 1,464,871	$ 13,665	$ 1,478,536	$ 1,467,260

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

Statement of Changes in Accrued Benefits

For the year ended December 31, 2007

($ thousands)

	2007			2006
	Pre-1992	Post-1991	Total	Total
Increase in accrued benefits				
Interest accrued on benefits	$ 50,758	$ 43,034	$ 93,792	$ 93,907
Benefits earned	-	40,206	40,206	38,159
Changes in actuarial assumptions	20,853	20,255	41,108	-
Experience losses	1,411	2,315	3,726	-
Cost-of-living indexing adjustments and interest	8,732	6,894	15,626	6,695
	81,754	112,704	194,458	138,761
Decrease in accrued benefits				
Benefits, transfers and interest	54,562	16,695	71,257	63,108
	54,562	16,695	71,257	63,108
Net increase in accrued benefits	27,192	96,009	123,201	75,653
Accrued benefits at beginning of year	786,946	647,040	1,433,986	1,358,333
Accrued benefits at end of year	$ 814,138	$ 743,049	$ 1,557,187	$ 1,433,986

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

Statement of Changes in Surplus (Deficiency)

For the year ended December 31, 2007

	($ thousands)			
	2007			2006
	Pre-1992	Post-1991	Total	Total
Surplus (Deficiency) at beginning of year	$ (25,135)	$ 58,409	$ 33,274	$ (67,343)
Increase (decrease) in net assets available for benefits	(33,516)	44,792	11,276	170,906
Net increase in accrued benefits	(27,192)	(96,009)	(123,201)	(70,289)
Surplus (Deficiency) at end of year (Note 13)	$ (85,843)	$ 7,192	$ (78,651)	$ 33,274

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

Notes to the Financial Statements

December 31, 2007

(All dollar amounts in thousands, except per member data)

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. The Minister of Finance and Enterprise acts as trustee for the Plan.

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan. Employees and employers are responsible for fully funding service after 1991.

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, 2007 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

The Special Forces Pension Board (the Board), in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2006. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2007 for current service and post-1991 actuarial deficiency were unchanged from December 31, 2006 at 9.61% of pensionable salary for employers and 8.51% for employees. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and cost of living adjustment (COLA) payments to the Plan are 11.11% of pensionable salary for employers and 10.01% for employees and 1.25% for the Province of Alberta.

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 and earnings from investments. The rates in effect at December 31, 2007 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. To date, contributions to the Indexing Fund have provided COLA for service from 1992 to 2000.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

Note 1 (continued)

c) RETIREMENT BENEFITS

The Plan provides for a lifetime pension of 1.4% 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*. An additional temporary bridge benefit of 0.6% for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the plan is 35 years.

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. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

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, REFUNDS AND TRANSFERS

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. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

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.

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). As of December 31, 2007, COLA has been granted to December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian 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 and Enterprise. 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 and Enterprise.

The fair value of private equity and income investments are 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 earnings analyses.

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 value of Timberland investments is appraised annually by independent third party valuators.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

c) INCOME RECOGNITION

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all 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. 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.

Note 2 (continued)

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.

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 investments, real estate and timberland investments. 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 investments, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

iii) 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 investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

iv) 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.

v) 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.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	($ thousands)					
	2007			2006		
	Fair Value			Fair Value		
			%			%
Fixed Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$	8,415	0.6	$	8,241	0.6
Universe Fixed Income Pool (b)		262,533	17.8		285,177	19.5
Canadian Long Term Government Bond Pool (b)		156,955	10.6		106,840	7.3
Private Mortgage Pool (c)		61,769	4.2		62,581	4.3
Real rate of return bonds (d)		29,633	2.0		23,633	1.6
Currency Alpha Pool (e)		2,103	0.1		3,598	0.2
Tactical Asset Allocation Pool (f)		2,375	0.2		5,052	0.3
		523,783	35.5		495,122	33.8
Canadian Equities (Schedule B)						
Canadian Structured Equity Pool (g)		47,662	3.2		85,276	5.8
Canadian Pooled Equities Fund (h)		58,547	3.9		57,883	4.0
Canadian Large Cap Equity Pool (i)		19,419	1.3		18,674	1.3
Canadian Small Cap Equity Pool (i)		35,483	2.4		34,433	2.4
Canadian Equity Enhanced Index Pool (j)		28,734	1.9		29,362	2.0
Canadian Multi-Cap Pool (k)		63,869	4.3		23,535	1.6
Growing Equity Income Pool (l)		12,203	1.0		12,421	0.8
Private Equity Pool		992	0.1		3,817	0.3
Tactical Asset Allocation Pool -futures contracts (f)		-	-		(20,326)	(1.4)
		266,909	18.2		245,075	16.8
United States Equities (Schedule C)						
U.S. Structured Equity Pool (m)		168,537	11.4		192,240	13.1
U.S. Small/Mid Cap Equity Pool (n)		44,199	3.0		44,567	3.0
Portable Alpha U.S. Pool (o)		47,495	3.2		43,701	3.0
Growing Equity Income Pool (l)		2,649	-		4,062	0.3
Tactical Asset Allocation Pool -futures contracts (f)		-	-		20,326	1.4
		262,880	17.6		304,896	20.8
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (p)		225,414	15.3		243,051	16.6
Emerging Markets Equity Pool (q)		10,052	0.7		16,433	1.1
EAFE Structured Equity Pool (r)		35,295	2.4		35,617	2.4
EAFE Passive Equity Pool		-	-		460	-
		270,761	18.4		295,561	20.1
Real Estate Equities (Schedule E)						
Private Real Estate Pool (s)		111,891	7.6		102,799	7.0
Alternative Investments - Equities						
Private Income Pools (t)		23,681	1.6		16,024	1.1
Timberland Pool (u)		7,602	0.5		5,339	0.4
Global Private Equities (v)		8,417	0.6		-	-
		39,700	2.7		21,363	1.5
Total equities		952,141	64.5		969,694	66.2
Total investments	$	1,475,924	100.0	$	1,464,816	99.9

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 (UFIP) 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 DEX Bond Universe Index and the DEX Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The UFIP portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests primarily 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 DEX Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The Pool primarily 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 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.

f) 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 December 31, 2007, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

g) 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.

h) 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.

i) The 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 a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

j) 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.

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 comprised of investments in the External Managers Canadian Multi-Cap Pool. 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. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows for its equity swap obligations.

Note 3 (continued)

l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income 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 Dividend Paying Stock Index.

m) 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 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, the Pool also invests in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

n) The U.S. Small/Mid 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. Small/Mid 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.

o) The Portable Alpha U.S. 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 a four-year period.

p) The EAFE (Europe, Australasia and Far East) 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.

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

r) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool 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 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.

t) Private Income Pools are managed with the objective of providing investment returns 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.

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

v) The Global Private Equity Pool is managed with the objective of providing investment returns comparable to the Consumer Price Index plus 8.0%. The Foreign Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

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. In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term benchmark policy asset mix for investments:

Fixed income securities	29.0%
Canadian equities	17.0%
U.S. equities	17.5%
Non-North American equities	17.5%
Real estate	7.0%
Private income	5.0%
Absolute return strategies	5.0%
Timberland	2.0%

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. 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 interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. 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. 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.

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, 2007:

($ thousands)

	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)
Equity index swap contracts	94	6	-	$ 328,621	$ (4,000)	$ 312,455	$ 9,656
Credit default swap contracts	2	22	76	280,126	(833)	154,233	195
Interest rate swap contracts	6	15	79	157,308	(752)	231,639	(141)
Swap option contracts	52	0	48	150,276	28	263,665	(192)
Forward foreign exchange contracts	100	-	-	122,896	(537)	126,433	(299)
Cross-currency interest rate swap contracts	22	49	29	84,373	4,116	84,827	2,711
Equity index futures contracts	100	-	-	80,276	2,062	102,679	3,213
Bond index swap contracts	100	-	-	55,914	1,331	80,624	330
				$1,259,790	$ 1,415	$1,356,555	$ 15,473

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). Credit exposure is limited by dealing with counter-parties with good credit standing.

NOTE 6 ACCOUNTS RECEIVABLE

($ thousands)

	2007	2006
Contributions receivable		
Employers	$ 1,303	$ 1,284
Employees	1,193	1,182
Province of Alberta	239	230
	2,735	2,696
Receivable from (Payable to) from Alberta Pensions Administration Corp.	(5)	119
Receivable from sale of investments and accrued investment income	71	138
	$ 2,801	$ 2,953

NOTE 7 ACCRUED BENEFITS

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2006 by Hewitt and Associates and was then extrapolated to December 31, 2007.

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 and the Board, Alberta Finance and Enterprise adopted these best estimates.
The major assumptions used were:

	2006 Valuation and 2007 Extrapolation	2004 Valuation and 2006 Extrapolation
	%	
Investment return	6.5	7.0
Inflation rate	2.50	3.25
Salary escalation rate*		
For 2007	3.90	3.75
For 2008	4.40	3.75
Thereafter	3.00	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.

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, 2007:

	($ thousands)			
	2007			2006
	Pre-1992	Post-1991	Total	Total
Plan Fund net assets available for benefits	$ 728,295	$ 736,575	$ 1,464,870	$ 1,457,411
Plan Fund accrued benefits	814,141	729,380	1,543,521	1,424,137
Plan Fund Surplus (Deficiency) (Note 13)	$ (85,846)	$ 7,195	$ (78,651)	$ 33,274

As at December 31, 2007, the Indexing Fund held investments of $13,665 (2006 $9,849) with offsetting accrued benefits of the same amount.

Note 7 (continued)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2007:

	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%	$ 89	0.0% **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	34	1.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	228	4.2%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2006 valuation was 16.48%.
** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 8 NET INVESTMENT INCOME

a) INVESTMENT INCOME

Net investment income is comprised of the following:

	($ thousands)	
	2007	2006
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ (26,498)	$ 138,764
Interest income	39,688	34,300
Dividend income	14,135	12,824
Real estate operating income	4,616	4,522
Securities lending income	609	435
	32,550	190,845
Investment expenses	(4,181)	(2,898)
Net investment income	$ 28,369	$ 187,947

Note 8 (continued)

a) Investment Income (continued)

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

	($ thousands)	
	2007	2006
Fixed Income Securities	$ 11,811	$ 21,656
Canadian Equities	26,547	43,674
Foreign Equities		
United States	(28,504)	37,993
Non-North American	(7,488)	63,957
Alternative Investments - Equities	5,718	2,458
Real Estate Equities	20,285	18,209
	$ 28,369	$ 187,947

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	1.9%	9.4%	6.0%
Policy Benchmark**	1.1%	8.6%	5.1%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a 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.

b) INVESTMENT EXPENSES

On January 1, 2008, the investment operations of the Department of Finance and Enterprise were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance and Enterprise. It provides the day to day investment services for the Fund's investment portfolio. AIMCo invests the assets for the long-term benefit of the Plan's membership and in accordance with the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Note 8 (continued)

b) Investment Expenses)continued)

Investment services provided by AIMCo and external managers include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

	($ thousands)	
	2007	2006
Investment operations of Alberta Finance	$ 799	$ 554
External manager fees	3,382	2,344
Total investment expenses	$ 4,181	$ 2,898
Investment expenses as a percentage of net assets	0.28%	0.20%

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2007	2006
Current and optional service		
Employers	$ 24,063	$ 22,760
Employees	21,956	20,884
Unfunded liability		
Employers	2,880	2,775
Employees	2,880	2,775
Province of Alberta	2,975	2,866
Transfers from other plans (net)	341	381
	$ 55,095	$ 52,441

NOTE 10 ADMINISTRATION EXPENSES

	($ thousands)	
	2007	2006
General administration costs	$ 797	$ 994
Actuarial fees	137	16
	$ 934	$ 1,010

Total administration expenses including investment management costs amounted to $239 per member (2006 $241 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 and Enterprise.

Investment management costs totaling $354 (2006: $240) were paid to Alberta Finance and Enterprise on a cost recovery basis. Pooled funds management and associated custodial fees totaling $3,827 (2006: $2,651), which have been deducted in arriving at the calculation of net investment income of the Pools, are excluded from Plan expenses (see Note 8).

NOTE 11 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective October 15, 2007		
Up to 4 hours	$ 200	$ 150
4 to 8 hours	350	265
Over 8 hours	550	390

	2007	2006
During 2007, the following amounts were paid:		
Remuneration		
Chair	$ 2,450	$ 2,528
Members	19,926	14,654
Travel expenses		
Chair	2,067	2,879
Members	12,713	12,985

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, 2007, cost-of-living increases for post-1991 service from January 1, 1992 to December 31, 2000 have been granted at 60% of the increase in the Alberta Consumer Price Index.

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 $1,454 million at December 31, 2007 (2006: $1,373 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, 2007 (see Note 1(b)).

NOTE 14 COMPARATIVE FIGURES

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

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by Alberta Pensions Administration Corporation and the Plan's actuary, and after consultation with the Special Forces Pension Board.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 13,591	$ 16,181
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	109,761	122,095
Provincial		
Alberta, direct and guaranteed	78	108
Other, direct and guaranteed	129,998	109,546
Municipal	3,454	691
Corporate	260,682	242,336
	503,973	474,776
Receivable from sale of investments and accrued investment income	6,686	4,563
Liabilities for investment purchases	(467)	(398)
	6,219	4,165
	$ 523,783	$ 495,122

(a) Fixed income securities held as at December 31, 2007 had an average effective market yield of 5.85% per annum (2006 5.28% per annum). The following term structure of these securities as at December 31, 2007 was based on the principal amount.

	2007	2006
	%	%
under 1 year	3	2
1 to 5 years	19	23
6 to 10 years	29	30
11 to 20 years	14	13
over 20 years	35	32
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 1,854	$ 1,503
Public equities (a) (b)		
Consumer discretionary	15,177	13,997
Consumer staples	5,864	7,634
Energy	66,346	60,162
Financials	71,906	69,504
Health care	1,142	2,042
Industrials	20,004	18,910
Information technology	13,488	10,818
Materials	42,098	38,283
Telecommunication services	13,850	11,505
Utilities	2,875	2,317
	252,750	235,172
Passive index	9,730	579
	262,480	235,751
Private Equity Pool	992	3,817
Receivable from sale of investments and accrued investment income	2,579	4,362
Liabilities for investment purchases	(996)	(358)
	1,583	4,004
	$ 266,909	$ 245,075

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling $83,751 (2006: $96,371).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 4,032	$ 1,380
Public equities (a) (b)		
Consumer discretionary	24,664	33,633
Consumer staples	24,308	25,196
Energy	31,024	27,786
Financials	46,079	67,130
Health care	32,461	36,931
Industrials	31,383	35,583
Information technology	43,234	46,361
Materials	10,683	10,316
Telecommunication services	8,495	9,315
Utilities	10,614	10,819
	262,945	303,070
Passive index	740	160
	263,685	303,230
Receivable from sale of investments and accrued investment income	1,033	1,031
Liabilities for investment purchases	(5,870)	(745)
	(4,837)	286
	$ 262,880	$ 304,896

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling $179,830 (2006: $211,681).

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 5,158	$ 6,058
Public equities (a) (b)		
Consumer discretionary	30,664	36,435
Consumer staples	18,589	18,035
Energy	23,321	20,143
Financials	55,530	82,033
Health care	18,581	19,957
Industrials	40,018	38,573
Information technology	17,913	18,713
Materials	22,429	20,296
Telecommunication services	22,201	17,949
Utilities	12,642	13,167
	261,888	285,301
Passive index	5,553	6,743
Receivable from sale of investments and accrued investment income	1,364	3,488
Liabilities for investment purchases	(3,202)	(6,029)
	(1,838)	(2,541)
	$ 270,761	$ 295,561

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $37,656 (2006: $37,330).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's. Non-North American public equities by country are as follows:

	($ thousands) Plan's Share 2007	2006
United Kingdom	$ 51,500	$ 61,205
Japan	47,383	55,969
France	28,461	31,584
Germany	26,475	21,534
Switzerland	18,217	16,438
Netherlands	11,970	16,537
Australia	10,981	8,889
Spain	10,473	11,668
Italy	8,891	10,038
Finland	5,421	4,127
Other	42,116	47,312
	$ 261,888	$ 285,301

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands)	
	Plan's Share	
	2007	2006
Deposits and short-term securities	$ 124	$ 53
Real estate (a)		
Office	50,078	50,980
Retail	35,233	30,121
Industrial	16,164	13,058
Residential	6,191	4,967
	107,666	99,126
Passive index	4,048	3,555
Receivable from sale of investments and accrued investment income	53	65
	$ 111,891	$ 102,799

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

	($ thousands)	
	Plan's Share	
	2007	2006
Ontario	$ 58,104	$ 56,846
Alberta	38,086	30,983
Quebec	9,227	9,364
British Columbia	2,249	1,933
	$ 107,666	$ 99,126

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2007

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

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, 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 of the Plan as at December 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 by]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
April 18, 2008

Statement of Net Assets Available for Benefits

As at December 31, 2007

	($ thousands)	
	2007	2006
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 9,080	$ 7,247
Refundable income tax (Note 1(f) and Note 6)	11,089	9,404
Contributions receivable	24	14
Other receivables	10	116
	20,203	16,781
Liabilities		
Income tax payable	10	304
Other payables	10	3
	20	307
Net assets available for benefits	20,183	16,474
Actuarial value of accrued benefits (Note 7)	(48,462)	(40,146)
SRP Reserve Fund (Note 8)	29,789	27,370
Surplus	$ 1,510	$ 3,698

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

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2007

	($ thousands)	
	2007	2006
Increase in assets		
Contributions		
Employees	$ 2,218	$ 1,913
Employers	2,217	1,913
	4,435	3,826
Net investment income (Note 9)		
Investment income	160	277
Investment expenses	(38)	(27)
	122	250
	4,557	4,076
Decrease in assets		
Benefits and refunds	(610)	(406)
Administration expenses (Note 10)	(238)	(241)
	(848)	(647)
Increase in net assets	3,709	3,429
Net assets available for benefits at beginning of year	16,474	13,045
Net assets available for benefits at end of year	$ 20,183	$ 16,474

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

Notes to the Financial Statements

December 31, 2007
(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The Minister of Finance and Enterprise acts as trustee of the Plan.

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) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 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, 2007 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 and Enterprise.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *maximum pensionable salary limit* under the *Income Tax Act* for each year of pensionable service after July 1, 1999 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.

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.

Note 1 (continued)

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 and Enterprise. 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.

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.

c) INCOME RECOGNITION

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Investment income is accrued as earned. Gains or losses on all investments are recognized concurrently with changes in fair value.

d) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include bond index swaps, interest rate swaps, forward foreign exchange 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) Bond index swaps are valued based on changes in the appropriate market 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 year-end exchange rates.

iii) Forward foreign exchange 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.

Note 2 (continued)

v) Swap option contracts are valued at quoted prices based on discounted cash flows using current market yields and calculated default probabilities.

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)).

NOTE 3 PORTFOLIO INVESTMENTS (SCHEDULE A)

	($ thousands)					
	2007			2006		
	Fair Value			Fair Value		
			%			%
Fixed Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$	330	5.8	$	423	5.8
Universe Fixed Income Pool (b)		7,062	73.8		5,348	73.8
Real rate of return bonds (c)		1,688	20.4		1,476	20.4
	$	9,080	100.0	$	7,247	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 Universe Fixed Income Pool is managed with the objective of providing competitive returns comparable to the total return of the DEX Bond Universe 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 benchmark policy asset mix of 45% (2006: 43%) fixed income instruments and 55% (2006: 27%) 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. 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 interest rate risk and foreign currency risk, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. A 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. A credit default swaps 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.

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.

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, 2007:

($ thousands)

	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)
		%					
Swap option contracts	52	-	48	$ 4,043	$ 1	$ 4,945	$ (4)
Interest rate swap contracts	-	1	99	2,915	(1)	3,396	4
Credit default swap contracts	1	17	82	6,858	(18)	2,580	2
Bond index swap contracts	100	-	-	639	6	1,471	1
Cross-currency interest rate swaps	8	17	75	475	55	236	(1)
Forward foreign exchange contracts	100	-	-	138	2	94	(3)
Equity index futures contracts	100	-	-	400	11	-	-
				$ 15,468	$ 56	$ 12,722	$ (1)

(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). Credit exposure is limited by dealing with counter-parties with good credit standing.

NOTE 6 REFUNDABLE INCOME TAX

	($ thousands)	
	2007	2006
Refundable income tax at beginning of year	$ 9,404	$ 7,431
Tax on employees and employers contributions received	2,212	1,916
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(527)	57
Refundable income tax at end of year	$ 11,089	$ 9,404

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, 2007.

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, Alberta Finance and Enterprise adopted the following best estimate assumptions.

The major assumptions used were:

	2005 Valuation and 2007 Extrapolation	2005 Valuation and 2006 Extrapolation
	%	
Discount rate *	4.50	4.50
Inflation rate	2.75	2.75
Investment rate of return	6.00	6.00
Salary escalation rate **	3.25	3.25
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

The following table shows the principal components of the change in the actuarial value of accrued benefits:

	($ thousands)	
	2007	2006
Actuarial value of accrued benefits at beginning of year	$ 40,146	$ 25,857
Interest accrued on benefits	1,950	1,608
Benefits earned	6,976	6,016
Net experience losses	-	8,273
Changes in actuarial assumptions	-	(1,202)
Benefits and refunds paid	(610)	(406)
Actuarial value of accrued benefits at end of year	$ 48,462	$ 40,146

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.

Note 7 (continued)

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, 2007:

	($ millions)		
	Sensitivities		
	Changes in Assumptions %	Decrease in Net Assets	Increase in Benefits Earned
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 3.8	$ 0.5
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	23.6	6.3
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	10.7	1.8

* 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 and Enterprise. Effective April 1, 2007, as recommended by the Plan's actuary, the employer contribution rate increased from 5.8% to 11.4% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act.*

The SRP Reserve Fund is a regulated fund established and administered by the Minister of Finance and Enterprise 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, 2007, the SRP Reserve Fund had net assets with fair value totaling $29,789 (2006: $27,370), comprising of $29,553 (2006: $27,271) in portfolio investments and $236 (2006: $99) in receivables. The increase during the year of $2,419 (2006: $4,540) is attributed to contributions from employers of $2,167 (2006: $1,079) and investment income of $252 (2006: $3,461).

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

	($ thousands)	
	2007	2006
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ (202)	$ (54)
Interest income	360	331
Security lending	2	-
	160	277
Investment expenses (Note 9 (b))	(38)	(27)
	$ 122	$ 250

b) INVESTMENT EXPENSES

On January 1, 2008, the investment operations of the Department of Finance and Enterprise were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance and Enterprise. It provides the day to day investment services for the Fund's investment portfolio. AIMCo invests the assets for the long-term benefit of the Plan's membership and in accordance with the investment policies approved by the Plan's Advisory Committee.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis.

Investment services provided by AIMCo include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

	($ thousands)	
	2007	2006
Investment expenses	$ 38	$ 27
Investment expenses as a percentage of net assets	0.42%	0.39%

NOTE 10 ADMINISTRATION EXPENSES

Administration expenses including investment management costs in the amount of $36 (2006 $26) 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 and Enterprise.

Total administration expenses including APA and investment management costs amounted to $196 (2006 $203) per member.

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 and Enterprise 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.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands) Plan's Share 2007	2006
Deposits and short-term securities	$ 354	$ 447
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	3,183	2,823
Provincial		
Alberta, direct and guaranteed	2	2
Other, direct and guaranteed	953	805
Municipal	3	3
Corporate, public and private	4,467	3,118
	8,608	6,751
Receivable from sale of investments and accrued investment income	118	55
Liabilities for investment purchases	-	(6)
	118	49
	$ 9,080	$ 7,247

(a) Fixed income securities held as at December 31, 2007 had an average effective market yield of 4.96% per annum (2006: 3.98% per annum). The following term structure of these securities as at December 31, 2007 was based on the principal amount:

	2007	2006
	%	
under 1 year	5	1
1 to 5 years	27	29
6 to 10 years	28	27
11 to 20 years	17	18
over 20 years	23	25
	100	100

Alphabetical List of Entities

Alphabetical List of Entities' Financial Statements In Ministry 2007-08 Annual Reports

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Access to the Future Fund	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	Finance
Alberta Capital Finance Authority	Finance
Alberta Energy and Utilities Board[1]	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 Investment Management Corporation[2]	Finance
Alberta Local Authorities Pension Plan Corporation	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
Alberta Utilities Commission[1]	Energy
ATB Insurance Advisors Inc.	Finance
ATB Investment Management Inc.	Finance
ATB Investment Services Inc.	Finance
ATB Securities 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
Climate Change and Emissions Management Fund[3]	Environment
Credit Union Deposit Guarantee Corporation	Finance

[1] Effective January 1, 2008, the Alberta Energy and Utilities Board was realigned into two separate regulatory bodies: the Alberta Utilities Commission and the Energy Resources Conservation Board.

[2] Began operations January 1, 2008

[3] Began operations July 1, 2007

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 Environment	Environment
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
Energy Resources Conservation Board[1]	Energy
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[4]	Employment, Immigration and Industry
Ministry of Energy	Energy
Ministry of Environment	Environment
Ministry of Executive Council[4]	Executive Council
Ministry of Finance	Finance
Ministry of Health and Wellness	Health and Wellness
Ministry of Infrastructure and Transportation[4]	Infrastructure and Transportation
Ministry of International, Intergovernmental and Aboriginal Relations[4]	International, Intergovernmental and Aboriginal Relations

[1] Effective January 1, 2008, the Alberta Energy and Utilities Board was realigned into two separate regulatory bodies: the Alberta Utilities Commission and the Energy Resources Conservation Board.

[4] 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 Justice[4]	Justice
Ministry of Municipal Affairs and Housing	Municipal Affairs and Housing
Ministry of Seniors and Community Supports	Seniors and Community Supports
Ministry of Service Alberta [4]	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 [4]	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[5]	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	
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	
Christ the Redeemer Catholic Separate Regional Division No. 3	
Clearview School Division No. 71	

[4] Ministry includes only the departments so separate departmental financial statements are not necessary.
[5] Ceased operations June 30, 2006

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
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	
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

GOVERNMENT ORGANIZATION CHANGES 2008-09

Ministry	Program/Element/Entity Changes	Previous Location	New Location
Aboriginal Relations	< Aboriginal Governance, Consultation and Economic Development < First Nations Development Fund	< Former International, Intergovernmental and Aboriginal Relations < Former Tourism, Parks, Recreation and Culture	
Advanced Education and Technology	< no change		
Agriculture and Rural Development	< Rural Development	< Former Employment, Immigration and Industry	
Children and Youth Services (formerly Children's Services)	< Women's Issues	< Former Employment, Immigration and Industry	
Culture and Community Spirit	< Culture, Community Lottery Grants, Heritage, Human Rights and Citizenship < Alberta Foundation for the Arts < Alberta Historical Resources Foundation < Government House Foundation < Historic Resources Fund < Human Rights, Citizenship and Multiculturalism Education Fund < Wild Rose Foundation < Community and Voluntary Services	< Former Tourism, Parks, Recreation and Culture < Former Municipal Affairs and Housing	
Education	< no change		
Employment and Immigration	< Francophone Secretariat	< Former Tourism, Parks, Recreation and Culture	
	< except Rural Development		< Agriculture and Rural Development
	< except Economic Development		< Finance and Enterprise, and International and Intergovernmental Relations
	< except Northern Alberta Development Council		< Finance and Enterprise
	< except Alberta Economic Development Authority		
	< except Women's Issues		< Children and Youth Services
Energy	< no change		
Environment	< no change		
Executive Council	< no change		
Finance and Enterprise	< Regulatory Review Secretariat	< Service Alberta	
	< Economic Development, except Investment Attraction < Northern Alberta Development Council < Alberta Economic Development Authority	< Former Employment, Immigration and Industry	
Health and Wellness	< no change		

Ministry	Program/Element/Entity Changes	Previous Location	New Location
Housing and Urban Affairs	< Housing Services < Alberta Social Housing Corporation	< Former Municipal Affairs and Housing	
Infrastructure	< except Provincial Highway Systems and Safety	< Former Infrastructure and Transportation	< Transportation
International and Intergovernmental Relations	< except Aboriginal Governance, Consultation and Economic Development < Investment Attraction	< Former Employment, Immigration and Industry	< Aboriginal Relations
Justice and Attorney General	< no change		
Municipal Affairs	< except Housing Services < except Alberta Social Housing Corporation < except Community and Voluntary Services		< Housing and Urban Affairs < Culture and Community Spirit
Seniors and Community Supports	< no change		
Service Alberta	< except Regulatory Review Secretariat < except Personnel Administration Office < except Aircraft Services		< Finance and Enterprise < Treasury Board
Solicitor General and Public Security	< no change		
Sustainable Resource Development	< no change		
Tourism, Parks and Recreation	< except First Nations Development Fund < except Culture, Community Lottery Grants, Heritage, Human Rights and Citizenship < except Alberta Foundation for the Arts < except Alberta Historical Resources Foundation < except Government House Foundation < except Historic Resources Fund < except Human Rights, Citizenship and Multiculturalism Education Fund < except Wild Rose Foundation < except Francophone Secretariat		< Aboriginal Relations < Culture and Community Spirit < Employment and Immigration
Transportation	< Provincial Highway Systems and Safety	< Former Infrastructure and Transportation	
Treasury Board	< Corporate Human Resources (formerly Personnel Administration Office) < Aircraft Services	< Service Alberta	

PRODUCED BY

Alberta Finance

Printed on Recycled Paper