

PROVINCIAL JUDGES

AND MASTERS IN

CHAMBERS
(Registered and Unregistered)

PENSION PLANS

ANNUAL REPORT
for the year ended March 31, 2010



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Introduction

The Provincial Judges and Masters in Chambers (Registered and Unregistered) Pension Plans (referred to collectively as “the Plan”) are contributory defined benefit plans for provincial court judges appointed under the *Provincial Court Act* and masters in chambers appointed under the *Court of Queen’s Bench Act*. The Plan was established in 2001 with provisions retroactive to April 1, 1998. The Plan replaced the previous Provincial Judges and Masters in Chambers Pension Plan which was established September 1, 1988. Prior to that date, judges and masters in chambers were contributing members of the Public Service Management Pension Plan.

The Plan rules are found in the *Provincial Judges and Masters In Chambers (Registered and Unregistered) Pension Plans Regulation* which is established pursuant to the *Provincial Court Act*, the *Court of Queen’s Bench Act* and the *Interpretation Act*. The Minister of Finance and Enterprise is the administrator of the plan and investment manager of the funds. Administrative duties have been delegated to Alberta Pensions Services Corporation (APS). Investment of the funds is managed by Alberta Investment Management Corporation (AIMCo). The Plan is audited annually by the Auditor General of Alberta.

Plan Profile

The Plan is a defined benefit plan, which means upon retirement members will receive a pension based on their salary and years of pensionable service. The Plan is financed by contributions from participants and the Government of Alberta (“the Province”) as well as investment earnings.

The Plan is made up of two parts. The Registered Plan provides benefits up to the maximum allowed for registered pension plans under federal tax rules. The Unregistered Plan provides benefits in excess of those limits.

The Registered Plan Fund has been established to fund the Registered Plan. It is financed by contributions from participants and the Province. From April 1, 2000 onward, the contribution rate to the Registered Plan for participants is 7 per cent of salary below the maximum pensionable salary limit allowed for registered plans under the *Income Tax Act* (“capped salary”). The Province pays the remaining costs and the contribution rate in effect at March 31, 2010 is 16.16 per cent of capped salary.

A Retirement Compensation Arrangement (RCA) Fund has been established to fund the Unregistered Plan. An RCA is, under federal tax rules, an approved means of providing a supplementary pension above the registered plan limits under the federal tax rules. It is administered separately from the Registered Plan Fund. The RCA Fund is also funded by contributions from participants and the Province. The contribution rate in effect at March 31, 2010 is 7 per cent of pensionable salary in excess of the capped salary allowed under the federal *Income Tax Act* for both participants and the Province. The contribution rate for the Province must equal or exceed the rate payable by participants.

Due to the tax treatment of the RCA Fund, contributions to and investment income from the RCA Fund are not large enough to provide for all the expected future benefit payments from the Unregistered Plan. As a result, the Province has established a Reserve Fund. The Reserve Fund is a separate regulated fund established and administered by the Province. It is reported in the Ministry of Finance and Enterprise consolidated financial statements and annual report. Only the Province makes contributions to the Reserve Fund. The contribution rate for the Province in effect at March 31, 2010 is 34.61 per cent of salary in excess of the capped salary limit. The funds are then invested and reserved to meet future benefit payments.

Together, the Registered Plan and Unregistered Plan provide a pension based on 2 per cent of a member’s highest average salary for years of pensionable service before April 1, 1998; 2.67 per cent of a member’s highest average salary for years of pensionable service between April 1, 1998 to March 31, 2000 and 3 per cent of a member’s highest average salary for years of pensionable service after March 31, 2000. Members attain their maximum benefit accrual date when their benefit accrual percentage reaches 70 per cent. Members are able to retire with an unreduced pension as early as age 60 if their age

and years of pensionable service total at least 80. Members can retire with a reduced pension at age 55 if they have at least five years of pensionable service.

As of March 31, 2010, the Registered Plan had 140 active participants, four inactive participants and 117 pensioners and beneficiaries. As of March 31, 2010, the Unregistered Plan comprised 129 active participants, two inactive participants and 101 pensioners and beneficiaries.

Judges' Pension Plan Committees

Established in 2002, the Judges' Pension Plan Advisory Committee consists of five representatives—one member from the Ministry of Finance and Enterprise, two members from the Ministry of Justice and two non-voting members of the judiciary.

The Advisory Committee provides advice to the Minister of Finance and Enterprise on administration of the Plan, and to AIMCo on investment management of the Plan's funds.

The Judges' Pension Plans Investment Committee was established in 2007. The Committee consists of three representatives- two members from the Ministry of Finance and Enterprise and one member from the Ministry of Justice. The Committee's mandate is to approve the investment policies and oversee investment of the plans' funds.

Contributions

Registered Plan

The schedule below summarizes contributions to the Registered Plan for the year ended March 31, 2010:

Active Participants at March 31, 2010	Contributions Received In the Year Ended March 31, 2010			Year Ended March 31, 2009
	Participants (\$ thousands)	Province (\$ thousands)	Total (\$ thousands)	Total (\$ thousands)
140	1,055	2,437	3,492	3,215

Unregistered Plan

The schedule below summarizes contributions to the RCA Fund as well as the Reserve Fund for the year ended March 31, 2010:

	Contributions Received In the Year Ended March 31, 2010			Year Ended March 31, 2009
	Participants (\$ thousands)	Province (\$ thousands)	Total (\$ thousands)	Total (\$ thousands)
RCA Fund	870	870	1,740	1,850
Reserve Fund	N/A	4,352	4,352	4,405

Pension Benefits

During the year ended March 31, 2010, pension benefits paid from the Registered Plan totaled \$6,170,000 to 117 pensioners and beneficiaries (2009: \$5,852,000 to 109 pensioners and beneficiaries). Pension benefits paid from the Unregistered Plan totaled \$2,658,000 to 101 pensioners and beneficiaries (2009: \$2,303,000 to 93 pensioners and beneficiaries).

Eleven new pensions (including spousal pensions) were granted in each Plan, and three pensioners and/or beneficiaries passed away during the year.

The schedule below categorizes the pensions in effect at March 31, 2010:

Dollar Value Per Month \$	Number of Pensions	
	Registered Plan	Unregistered Plan
Advances*	3	3
1 to 999	1	38
1,000 to 1,999	14	14
2,000 to 2,999	18	8
3,000 to 3,999	23	11
4,000 and over	58	27
	117	101

*Pension advances are granted while a pension is being finalized.

On January 1, 2010, a cost-of-living adjustment (COLA) of 0.06 per cent was granted to those pensioners and beneficiaries in receipt of a pension for one year or more with a proportionately smaller increase granted to those retiring during the 2009 calendar year. COLA is calculated at 60 per cent of the increase in the Alberta Consumer Price Index (CPI).

Actuarial Valuation

An extrapolation of both the Registered and Unregistered Plans as at March 31, 2010, based on the actuarial valuation as at December 31, 2008, was carried out by Johnson Inc. The estimated accrued liability of the Registered Plan at March 31, 2010 is \$93.3 million compared to \$89.4 million a year earlier. The net assets available for benefits at March 31, 2010 are \$91.6 million (2009: \$78.6 million), producing an estimated deficiency of \$1.7 million (2009: \$10.9 million deficiency).

The Unregistered Plan showed net assets available for benefits (including the reserve fund) of \$80.4 million at March 31, 2010 (2009: \$65.8 million) and an actuarial deficiency of approximately \$1.5 million (2009: deficiency of \$8.2 million).

The Provincial Judges and Masters in Chambers (Registered and Unregistered) Pension Plan Regulation requires that an actuarial valuation be completed at least every three years.

Summary Information

The following table is provided for illustrative purposes only. Each of the Plan Funds is an independent entity and, as such, there is no right of offset of these individual liabilities and assets. Data is provided using fair value of assets (not actuarial or “smoothed” values), as presented in the respective financial statements.

	March 31, 2010	March 31, 2009
	(\$ thousands)	
Net assets available for benefits – Registered Plan	\$ 91,578	\$ 78,560
Net assets available for benefits – Unregistered Plan	10,123	11,118
Reserve fund assets	70,235	54,715
	<hr/> 171,936	<hr/> 144,393
Accrued benefits – Registered Plan	93,298	89,419
Accrued benefits – Unregistered Plan	81,826	74,076
	<hr/> 175,124	<hr/> 163,495
Excess (deficiency) of aggregate assets over aggregate accrued benefits	<hr/> (\$ 3,188)	<hr/> (\$ 19,102)

Administration

Administration of the Registered and Unregistered Plans is performed by APS. Administration expenses, for the year ended March 31, 2010 were \$114,000 (2009: \$78,000) for the Registered Plan and \$72,000 (2009: \$74,000) for the Unregistered Plan.

Investments – Registered Plan

Investment Performance

Fiscal 2009-10 marked a significant rebound in world equity markets after last year's severe decline brought on by the global recession, credit crisis and decline in commodity prices. The recovery in the investment markets was driven by an infusion of financial liquidity from governments around the world and a reduction in the extreme risk averse behavior of investors. Oil prices also began to stabilize and recover from last year's roller coaster increase and decline.

For the year ending March 31, 2010, the Registered Plan reported an overall gain of 20.2% which exceeded the Plan's policy benchmark gain of 16.5%, by 3.7%. World equity markets were up significantly in 2009-10 compared to last year. The Plan's Canadian equity portfolio which, comprise 14.3% of the Plan's total investments, gained 47.6% this year. Foreign equities which, comprise 35.0% of the Plan's investments, gained 29.9% this year. Bonds and mortgages which, comprise 42.5% of the Plan's total investments, gained 11.1% this year.

Over the long term, the Plan's actuary estimates a long-term annualized investment rate of return of 6.20% per annum.

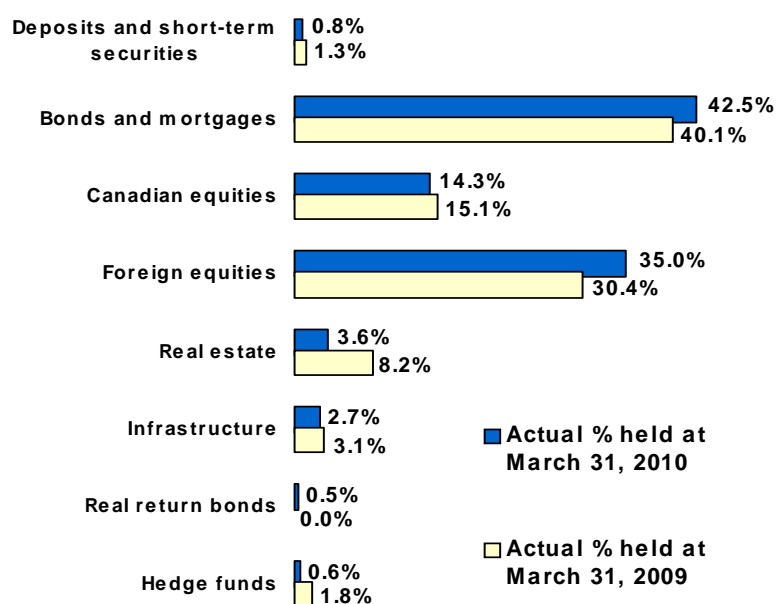
Investment Returns

For the Years Ending March 31 (in percent)

	2009-10	2008-09	2007-08	2006-07	Average Annualized Returns		
					4 Years	8 Years	16 Years
Overall Actual Return	20.2	(17.7)	(1.6)	11.0	2.0	5.0	7.0
Policy Benchmark	16.5	(12.9)	(0.2)	10.3	2.8	4.9	7.0
Value Added (lost)	3.7	(4.8)	(1.4)	0.7	(0.8)	0.1	0.0

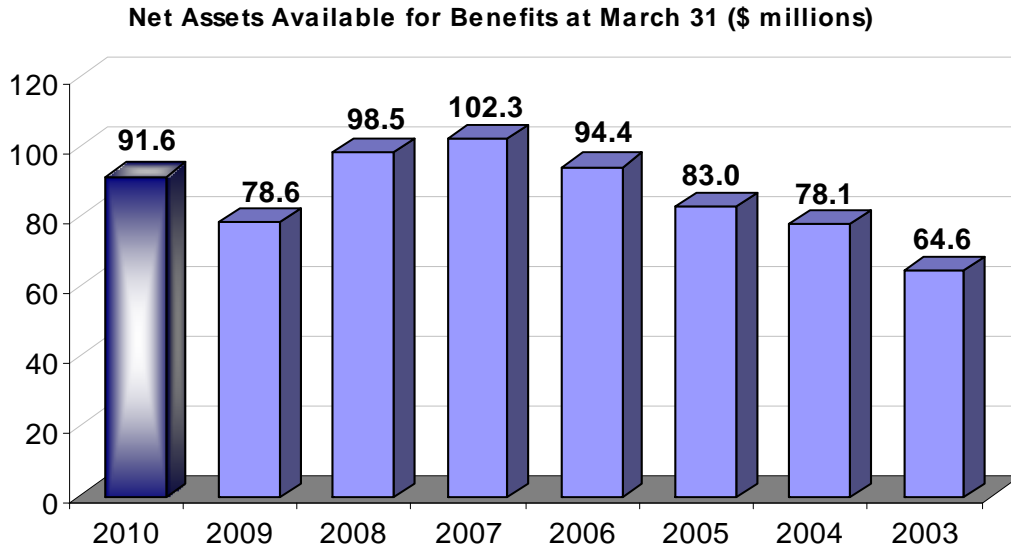
Asset Allocation

The Registered Plan's assets are allocated to capture the historically higher rates of return from equities. The chart below compares the Registered Plan's actual asset mix at March 31, 2010 to the actual asset mix held at March 31, 2009. Compared to last year, the Plan's holdings in fixed income securities and foreign equities increased relative to other asset classes.



Change in Net Assets

At March 31, 2010, net assets available to pay benefits in the Registered Plan totalled \$91.6 million, up \$13.0 million or 16.5% from \$78.6 million at March 31, 2009. The increase of \$13.0 million includes net investment income of \$15.8 million offset by an excess of benefits paid over contributions received of \$2.8 million.



Investments – Unregistered Plan

The Unregistered Plan, which is an RCA under the federal *Income Tax Act*, consists of two accounts, the RCA Fund and a refundable tax account. Half of the contributions from judges and masters in chambers and the Province are deposited in the RCA Plan. The other half of contributions and 50% of the RCA Plan's realized income are forwarded to the Canada Revenue Agency and held in a refundable tax account. The refundable tax account does not earn interest. Refundable income tax is returned to the Unregistered Plan at the same rate when pension benefits are paid to participants and beneficiaries.

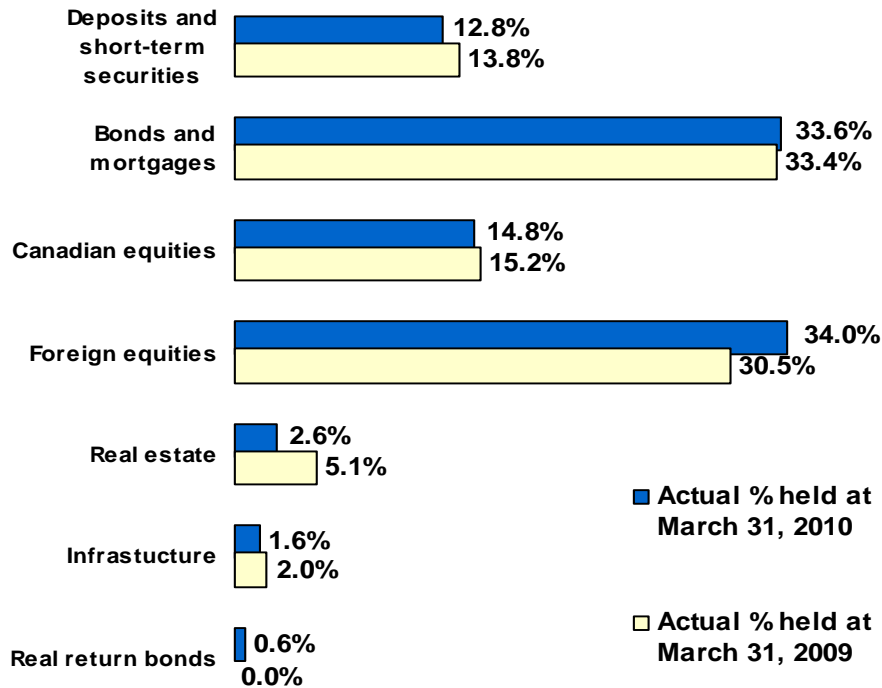
Additionally, due to the tax treatment of the Unregistered Plan, contributions to and investment income from the RCA Plan are not large enough to provide for all expected future benefit payments. As a result, the Government of Alberta established a regulated Reserve Fund, which is administered by the Minister of Finance and Enterprise. Contributions are collected from the Government only; the funds are invested and then reserved to meet future benefits of the Unregistered Plan.

Investment Performance

The Unregistered Plan posted an overall gain of 18.9% compared to the policy benchmark gain of 15.8%, resulting in a gain from investment management of 3.1%. Over the long term, the Unregistered Plan's actuary estimates a long-term annualized investment rate of return of 5.50% per annum until 2016 and 6.20% per annum thereafter.

Asset Allocation

The chart below compares the actual asset mix of the Unregistered Plan including the Reserve Fund at March 31, 2010 against the actual asset mix at March 31, 2009.



Net Assets Available for Benefits

The table below summarizes the composition of the Unregistered Plan at March 31, 2010.

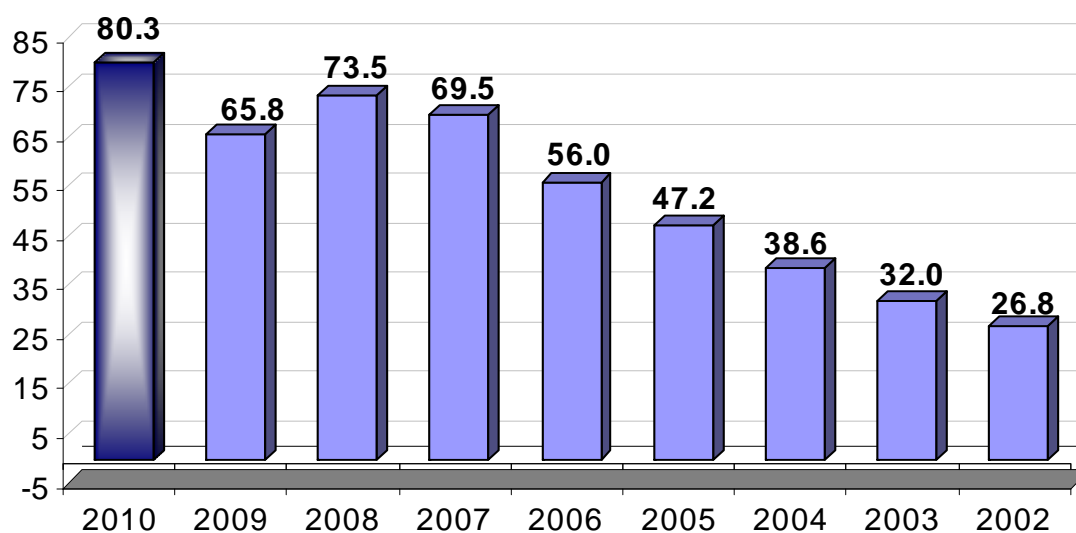
Summary of Net Assets at March 31, 2010 (in millions)

	Reserve Fund	RCA Fund	Total
Deposits and short-term securities	\$ 6.2	\$ 3.2	\$ 9.4
Bonds and mortgages	24.6	-	24.6
Canadian equities	10.8	-	10.8
Foreign equities	24.9	-	24.9
Real estate	1.9	-	1.9
Infrastructure	1.2	-	1.2
Real return bonds	0.4	-	0.4
	70.0	3.2	73.2
Accounts receivable	0.2	-	0.2
Accounts payable, net	-	(3.3)	(3.3)
Income tax refundable	-	10.2	10.2
Net assets	\$ 70.2	\$ 10.1	\$ 80.3

Change in Net Assets

At March 31, 2010, net assets available to pay benefits in the Unregistered Plan totalled \$80.3 million, up \$14.5 million or 22.0% from \$65.8 million at March 31, 2009. The increase includes a net investment gain of \$11.2 million and contributions in excess of benefits paid of \$3.3 million.

Net Assets Available for Benefits at March 31 (\$ millions)



PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

Year Ended March 31, 2010

Auditor's Report

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

Statements of Changes in Net Assets Available for Benefits

Notes to the Financial Statements



AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Provincial Judges and Masters in Chambers (Registered) Pension Plan as at March 31, 2010 and 2009 and the Statements of Changes in Net Assets Available for Benefits for the years 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 audits.

I conducted my audits 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 March 31, 2010 and 2009 and the Changes in Net Assets Available for Benefits for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by:

Edmonton, Alberta
July 7, 2010

Merwan Saher, CA
Auditor General

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at March 31

	<i>(\$ thousands)</i>	
	2010	2009
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	\$ 91,154	\$ 78,306
Receivable from sale of investment	450	-
Contributions receivable		282
	91,604	78,588
Liabilities		
Accounts payable	26	28
Net assets available for benefits	91,578	78,560
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 6)	93,298	89,419
Deficiency	\$ (1,720)	\$ (10,859)

See accompanying notes and schedules.

**PROVINCIAL JUDGES AND MASTERS IN CHAMBERS
(REGISTERED) PENSION PLAN**

Statements of Changes in Net Assets Available for Benefits

Years ended March 31

	(\$ thousands)	
	2010	2009
Increase in assets		
Net investment income (loss) (Note 7)		
Investment income (loss)	\$ 16,065	\$ (16,950)
Investment expenses	(255)	(244)
	<u>\$ 15,810</u>	<u>\$ (17,194)</u>
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	1,055	972
Province of Alberta	2,437	2,243
	<u>3,492</u>	<u>3,215</u>
	<u>19,302</u>	<u>(13,979)</u>
Decrease in assets		
Pension benefits and refunds	6,170	5,852
Administration expenses (Note 8)	114	78
	<u>6,284</u>	<u>5,930</u>
Increase (decrease) in net assets	13,018	(19,909)
Net assets available for benefits at beginning of year	78,560	98,469
Net assets available for benefits at end of year	<u>\$ 91,578</u>	<u>\$ 78,560</u>

See accompanying notes and schedules.

Notes to the Financial Statements

March 31

(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

For a complete description of the Provincial Judges and Chambers (Registered) Pension Plan (the Plan) and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan), reference should be made to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, *Court of Queen's Bench Act*, Revised Statutes of Alberta 2000, Chapter C-31, *Financial Administration Act*, Revised Statutes of Alberta 2000, Chapter F-12, and *Alberta Regulation 196/2001*, as amended. The Plan and Unregistered Plan are administered and accounted for by the Province of Alberta separately; however, the regulation allows for the financial report of both the Plan and the Unregistered Plan to be combined within the same report. Note 10 provides the financial report of the Unregistered Plan. The financial statements and notes of the Plan do not include the Unregistered Plan disclosed in Note 10.

The following description of the Plan is a summary only. For a complete description of the Registered Plan, reference should be made to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, *Court of Queen's Bench Act*, Revised Statutes of Alberta 2000, Chapter C-31, *Financial Administration Act*, Revised Statutes of Alberta 2000, Chapter F-12, and *Alberta Regulation 196/2001*, as amended.

(a) GENERAL

Effective April 1, 1998, the Plan is a contributory defined benefit pension plan for Provincial Judges and Masters in Chambers of the Province of Alberta. The Plan is a registered pension plan as defined in the Income Tax Act. The registered number is 0927764. The Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and accordingly Alberta Finance and Enterprise is management of the Plan.

(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 Plan. The rates in effect at March 31, 2010 are 7.00% of *capped salary* for plan members and 16.16% of *capped salary* for the Province of Alberta. The rates are reviewed at least once every three years by the Province of Alberta based on recommendations of the Plan's actuary.

(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 for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Pensionable earnings after December 31, 1991 are capped at the *maximum pensionable salary limit* under the *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%. The normal pensionable age is 70 years of age.

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 three 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.

Note 1 (continued)

(d) DISABILITY BENEFITS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

(f) TERMINATION BENEFITS

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

(g) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province 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 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 established and 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.

Note 2 (continued)

For private investments, absolute return strategies and timberland investments, the fair value 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, or 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. A change in the estimated fair value of an investment is recorded in the period in which the new information is received.

The methods used to determine fair value of investments held 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 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.

The fair values of receivable from sale of investment, contributions receivable, and accounts payable 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, 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.

Note 2 (continued)

- 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) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

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

Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

	(\$ thousands)			
	2010		2009	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Deposits and short-term securities (a)	\$ 749	0.8	\$ 961	1.3
Bonds and mortgages (b)	38,749	42.5	31,455	40.1
	39,498	43.3	32,416	41.4
Total equities and alternative investments				
Public equities				
Canadian (c)	13,002	14.3	11,848	15.1
Global developed (d)	31,689	34.8	23,530	30.1
Emerging markets (e)	216	0.2	272	0.3
Absolute return strategy hedge funds (f)	532	0.6	1,383	1.8
Inflation sensitive				
Private real estate (g)	3,286	3.6	6,428	8.2
Private infrastructure investments (h)	2,469	2.7	2,429	3.1
Inflation sensitive real return bonds (i)	462	0.5	-	-
	51,656	56.7	45,890	58.6
Total investments	91,154	100.0	\$ 78,306	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the investment policies approved by the Plan's board. The majority of the Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Plan's proportionate share of securities held in the pooled fund. 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. AIMCo is delegated authority to independently purchase and sell securities in the pools and units of the pools within the ranges approved for each asset class (see Note 4).

- a) Deposits and short-term securities include primarily interest bearing securities which have a maximum term to maturity of less than three years. At March 31, 2010, deposits and short-term securities had a time-weighted return of 1.0% per annum (2009: 3.0% per annum).
- b) Interest bearing bonds and mortgages include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements and debt related derivatives. At March 31, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 6%); 1 to 5 years: 33% (2009: 37%); 5 to 10 years: 36% (2009: 25%); 10 to 20 years: 13% (2009: 16%); and over 20 years: 15% (2009: 16%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling \$nil (2009: \$2,300).
- c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling \$4,573 (2009: \$7,160).

Note 3 (continued)

- d) The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), and Canada. The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling \$10,884 (2009: \$14,234).
- e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.
- f) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.
- g) The private real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue 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. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.
- h) Private infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).
- i) Real rate of return bonds are issued or guaranteed primarily 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 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 a long-term policy asset mix benchmark and range for the following investments:

	Policy Benchmark	%	
		Minimum	Maximum
Interest bearing securities	42	40	50
Deposits and short-term securities	1	0	5
Bonds	41	35	50
Private mortgages	0	0	5
Total equities and alternatives	58	50	65
Public equities			
Canadian	15	10	25
Global developed	32	20	50
Emerging markets	0	0	5
Absolute return strategy hedge funds	2	0	5
Inflation sensitive			
Private real estate	5	0	10
Private infrastructure investments	4	0	6

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The 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. Leveraging is not allowed.

Note 5 (continued)

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.

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.

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 March 31, 2010.

	%			(\$ thousands)			
				2010		2009	
	Maturity			Notional Amount	Net Fair Value ^(a)	Notional Amount	Net Fair Value ^(a)
Under 1 Year	1 to 3 Years	Over 3 Years					
Credit default swap contracts	30	38	32	\$ 29,128	\$ (227)	\$ 47,407	\$ (716)
Equity index swap contracts	99	1	-	16,806	450	17,368	76
Forward foreign exchange contracts	100	-	-	15,195	188	6,862	(181)
Futures contracts	100	-	-	11,848	793	6,584	981
Interest rate swap contracts	27	59	14	4,992	(134)	7,351	(344)
Cross-currency interest rate swap	25	28	47	3,699	319	5,734	(245)
Swap option contracts	100	-	-	2,956	(12)	-	-
Bond index swap contracts	-	-	-	-	-	1,459	11
				<u>\$ 84,624</u>	<u>\$ 1,377</u>	<u>\$ 92,765</u>	<u>\$ (418)</u>

(a) The method of determining the 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 LIABILITY FOR ACCRUED BENEFITS**a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS**

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Johnson Inc. and the results were then extrapolated to March 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of \$93,298 (2008: \$89,419) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate, and the salary escalation rate.

Note 6 (continued)

The major assumptions used for accounting purposes were:

	2010 %	2009 %
Investment rate of return	6.20	6.50
Inflation rate	2.25	2.25
Salary escalation rate	3.50	3.50

The following statement shows the principal components of the change in the value of accrued benefits.

	(\$ thousands)	
	2010	2009
Accrued pension benefits at beginning of year	\$ 89,419	\$ 102,975
Interest accrued on benefits	5,812	6,693
Net experience gains*	(1,499)	(9,555)
Benefits earned	3,207	3,685
Net benefits paid	(6,170)	(5,852)
Change in economic assumptions	2,529	(8,527)
Accrued pension benefits at end of year	\$ 93,298	\$ 89,419

* Net experience gains of \$1,499 (2008:\$ 9,555) arose from differences between the actuarial assumptions used in the 2008 valuation and 2010 extrapolation for reporting compared to actual results.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The Plan's future experience will differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan. The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2010:

	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%	\$ 4.9	1.3%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.3	Nil
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	1.0%	9.4	3.6%

* As a % of capped pensionable earnings

NOTE 7 NET INVESTMENT INCOME (LOSS)

a) INVESTMENT INCOME (LOSS)

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

	(\$ thousands)					
	2010			2009		
	Gross income (loss)	Expenses	Net income (loss)	Gross income (loss)	Expenses	Net income (loss)
Interest bearing securities	\$ 4,011	30	\$ 3,981	\$ (1,541)	\$ 23	\$ (1,564)
Canadian equities	4,649	19	4,630	(5,166)	13	(5,179)
Foreign equities	7,323	94	7,229	(10,352)	106	(10,458)
Private real estate	(246)	14	(260)	322	22	300
Inflation sensitive real return bonds	16	0	16	0	0	0
Absolute return strategies	220	10	210	(246)	15	(261)
Private infrastructure investments	92	27	65	33	20	13
Plan investment expenses	-	61	(61)	-	45	(45)
	\$ 16,065	\$ 255	\$ 15,810	\$ (16,950)	\$ 244	\$ (17,194)

The following is a summary of the investment performance results attained by the Plan.

	2010	2009	Compound Annualized Return		
			4 years	8 years	Return 16 years
Time-weighted rates of return*					
Actual Gain (loss)	20.2%	-17.7%	2.0%	5.0%	7.0%
Benchmark gain (loss)**	16.5%	(12.9%)	2.8%	4.9%	7.0%
Value added (lost) by investment manager	3.7%	(4.8%)	(0.8%)	0.1%	0.0%

* 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 is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

b) INVESTMENT EXPENSES

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 directly 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 include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charge to the Plan.

NOTE 8 ADMINISTRATION EXPENSES

Administration expenses of \$114 (2009: \$78) comprised of general administration costs is paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 9 ACTUARIAL SURPLUS OR DEFICIT

If there is an actuarial funding surplus that exceeds the amount that is actuarially determined to be necessary to pay benefits and the costs of administering the Plan, the Lieutenant Governor in Council may, with respect to any portion or all of the excess, transfer it to the Government of Alberta General Revenue Fund, or apply it towards reduction of the contributions for which the Government is liable.

If the Plan is terminated and the Plan's assets are not sufficient to pay all the benefits accrued under the terms of the Plan, up to the termination date, additional contributions are payable by the Government in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Plan, assets remain in the Plan, those assets shall be transferred to the General Revenue Fund of the Government of Alberta.

NOTE 10 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, 2010 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 and Enterprise, 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, 2010 and changes in net assets available for benefits for the year then ended is as follows:

	(\$ thousands)	
	2010	2009
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	\$ 3,182	\$ 4,042
Income tax refundable	10,244	9,174
Accounts payable, net	(3,303)	(2,098)
	10,123	11,118
Liabilities		
Actuarial value of accrued benefits	81,826	74,076
Excess of liabilities over assets	(71,703)	(62,958)
Reserve Fund (a)	70,235	54,715
Net liabilities	\$ (1,468)	\$ (8,243)

- a) Contributions from the Province of Alberta as determined by the Minister of Finance and Enterprise 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.

Note 10 (continued)

	(\$ thousands)	
	2010	2009
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	\$ 870	\$ 925
Province of Alberta	870	925
Investment income	(5)	114
	1,735	1,964
Decrease in assets		
(Decrease) increase in actuarial accrued benefits	(7,750)	1,203
Pension benefits and refunds	(2,658)	(2,303)
Administration costs	(72)	(74)
	(10,480)	(1,174)
Increase (decrease) in the Reserve Fund	15,520	(7,299)
Decrease in net assets	6,775	(6,509)
Net assets liabilities at beginning of year	(8,243)	(1,734)
Net liabilities at end of year	\$ (1,468)	\$ (8,243)

An actuarial valuation for the Unregistered Plan was carried out as at December 31, 2008 by Johnson Inc. and was extrapolated to March 31, 2010.

The major assumptions used in the actuarial extrapolation to March 31, 2010, were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 5.5% per annum until the year 2016 and 6.2% per annum thereafter (see Note 6).

The Unregistered Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Unregistered Plan.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 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 APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan Advisory Committee.