SUPPLEMENTARY

RETIREMENT PLAN

FOR PUBLIC SERVICE

MANAGERS

ANNUAL REPORT
For the fiscal year ended December 31, 2007

APA corporation

Table of Contents

Plan Profile

The Supplementary Retirement Plan for Public Service Managers (SRP) was established on July 1, 1999.

The Plan provides additional pension benefits to 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 *Income Tax Act*.

The SRP is supplementary to MEPP. Years of service under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both plans and the pension payable is in the same form.

The SRP and MEPP are two distinct pension plans, each with its own separate funding, investments, accounting, pension benefits and entitlements. The SRP is funded as a Retirement Compensation Arrangement, which under the federal tax rules is an acceptable means of providing a supplementary pension on salary above the yearly maximum pensionable salary limit.

Current service costs for the SRP are funded by employee and employer contributions, which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund, are expected to provide for all benefits payable under the SRP.

The contribution rate in effect at December 31, 2006 was 10.5 per cent of pensionable salary in excess of the yearly maximum pensionable earnings limit for eligible employees and designated employers. The contribution rate was effective July 1, 2005.

Employers also make additional contributions to the SRP Reserve Fund. An actuarial valuation is performed periodically to determine the accrued assets and liabilities of the SRP. An actuarial valuation was performed as at December 31, 2005. Based on the valuation, an increase in the contribution rate to the Reserve Fund was recommended. Effective April 1, 2007, the employer contribution rate to the Reserve Fund was increased from 5.8 per cent of excess earnings to 11.4 per cent of excess earnings.

All Alberta government employees who are part of MEPP and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act* accrue benefits under the SRP effective July 1, 1999, or from their date of participation in MEPP, if later. Agencies, boards and commissions associated with the Government of Alberta have the option of participating in the SRP, if their employees are contributing members of MEPP and their application is approved by the Minister of Finance and Enterprise.

Plan Administration

The Minister of Finance and Enterprise has delegated the responsibility of administering the SRP to Alberta Pensions Administration Corporation (APA).

In 2003, the SRP Advisory Committee was established by the Minister of Finance and Enterprise pursuant to Treasury Board Directive 01/06 (previously 01/99 as amended by Directive 04/99). The mandate of the Committee is to oversee the administration, investment, and funding of the SRP. The Committee is composed of three members, who are employees of the Government of Alberta, representing each of the following areas:

- One member from Pension Policy Division of Alberta Financial Sector Regulation and Policy, as appointed by the Deputy Minister of Finance and Enterprise;
- One member from Treasury Management Division of Alberta Finance and Enterprise, as appointed by the Deputy Minister of Finance and Enterprise; and
- One member from Personnel Administration Office (now Corporate Human Resources), as appointed by the Public Service Commissioner.

Investment Management

Alberta Investment Management (AIM) is the investment operation of Alberta Finance and Enterprise which manages and invests the assets of the Plan on behalf of the Minister of Finance and Enterprise and the SRP Advisory Committee.

On January 1, 2008, the investment operation of the Department of Finance and Enterprise of the Government of Alberta was transferred to the newly created Alberta Investment Management Corporation (AIMCo).

Financial Highlights*

- Contributions made to the SRP for 2007 totaled $6.60 million, up from $4.90 million in 2006. This included $2.22 million each from active members and employers and $2.16 million from employers to the SRP Reserve Fund.
- Payments from the SRP totalled $848,000, up from $647,000 in 2006. Payments included $610,000 in pension benefits and refunds to members ($406,000 in 2006) and $238,000 in administration expenses ($241,000 in 2006).
- The SRP's surplus decreased in 2007. This is due primarily to lower than anticipated investment returns.
- Further details of the Plan's finances are presented in the 2007 financial statements on page 7.
- The rules governing the SRP require that an actuarial valuation be completed every three years.
- The latest actuarial valuation was performed as at December 31, 2005, by Aon Consulting Inc. The next actuarial valuation will be carried out no later than December 31, 2008.
- The contribution rate for eligible employees and designated employers is 10.5 per cent of pensionable salary (in excess of the yearly maximum pensionable earnings limit). This parallels the member contribution rate for MEPP.
- At the start of 2007, the employer contribution to the SRP Reserve Fund was 5.8 per cent; however, based on the December 31, 2005 actuarial valuation and the advice of the actuary, this changed to 11.4 per cent effective April 1, 2007.

Operational Highlights

- At December 31, 2007, the SRP had 1,012 active members, 73 deferred members and 344 pensioners. In 2006, there were 1,024 active members, 70 deferred members and 272 pensioners.
- In comparison, at December 31, 2007, MEPP had 4,868 active members, 733 deferred members, and 2,684 pensioners.
- Approximately 21 per cent of active MEPP members participate in the SRP.
- The average monthly pension paid in 2007 was $207 ($183 in 2006).
- The highest monthly pension paid was $1,631 ($804 in 2006).

* Certain 2006 figures have been restated to conform with 2007 presentation.

Investment Highlights

The SRP consists of two accounts, the Retirement Compensation Arrangement Plan (RCA Fund) and a refundable income tax account. Half of the contributions from eligible employees and designated employers are deposited in the RCA Fund. The other half of contributions and 50 per cent of the RCA Fund's realized income are forwarded to the Canada Revenue Agency and held in a refundable income tax account. The refundable income tax account does not earn interest. Refundable income tax is returned to the Plan at the same rate when pension benefits are paid to Plan members and beneficiaries.

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

Investment Performance

AIM commenced active management of the Plan's investable assets effective April 1, 2004, based on the investment policy statement approved by the SRP Advisory Committee. The primary investment objective for the Plan is to earn a before-tax long-term real rate of return of 3.75 per cent. The Plan's actual real rate of return for 2007 was -1.2 per cent. The real rate of return is the return earned above inflation; it measures the return after taking into account the decrease in the purchasing power of the Canadian dollar.

Additionally, the investment manager is expected to achieve a value-added target of 0.5 per cent measured by comparing actual returns against the return of the policy benchmark (measured on a before tax basis) over a rolling four-year time horizon. The Plan's actual before-tax one-year return was 1.2 per cent in 2007 compared to its policy benchmark of 1.3 per cent.

Investment Performance
Rates of Return
Ending December 31, 2007

	2007 %	3 Years Annualized* %
Actual Overall Return	**1.2**	8.0
Policy Benchmark	**1.3**	7.7
Value Added (Lost)	**(0.1)**	0.3

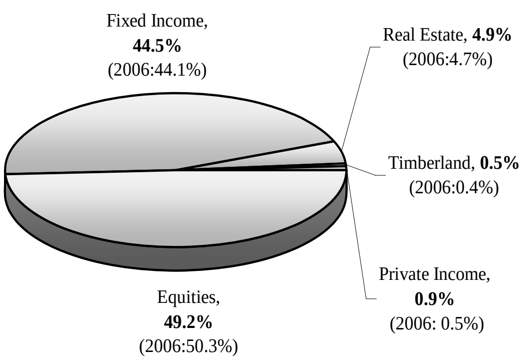
*Annualized returns convert multi-year returns (such as three years) into a compound return for ease of comparison between the time periods.

Investment Highlights (continued)

Asset Allocation

The long-term policy asset mix of the Plan for its investable assets is 0.5 per cent cash, 38.0 per cent bonds, 4.5 per cent real return bonds, 16.0 per cent Canadian equities, 15.0 per cent US equities, 15.0 per cent EAFE equities, 5.0 per cent real estate, 2.0 per cent private income, 2.0 per cent private equity and 2.0 per cent to timberlands. Prior to December 31, 2003, the SRP assets, including those held in the Reserve Fund, consisted of cash and cash equivalents. In 2004, a transition began to capture the historically higher rates of return from equities.

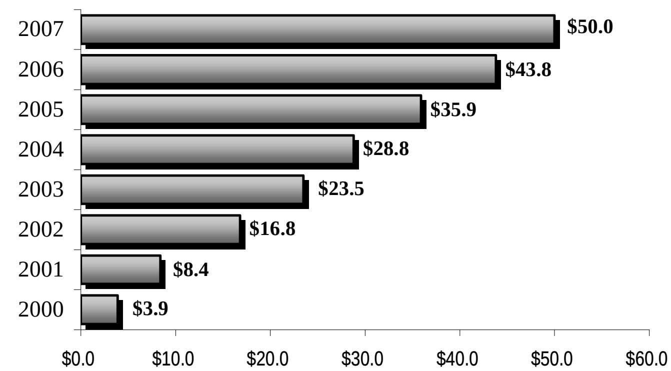
At December 31, 2007, the asset mix of the Plan, including the Reserve Fund, was as follows:



Change in Assets

Net Assets available to pay benefits at the end of 2007 for the SRP were $50.0 million including $9.1 million in the RCA Fund, $11.1 million in the refundable income tax account, and $29.8 million in the Reserve Fund.

Net Assets (in mllions)*



*Net of miscellaneous receivables and payables.

Additional Information

- The Management Employees Pension Board provides advice to the Minister of Finance and Enterprise on the interface of the SRP with MEPP
- Financial statements for the SRP Reserve Fund are included in the Alberta Finance and Enterprise annual reports.
- Additional information on the SRP is available on the MEPP Web site at www.mepp.ca

Employers Participating in the SRP as at December 31, 2007

- Government of Alberta – began participation July 1, 1999
- Agriculture Financial Services Corporation – began participation July 1, 1999
- Alberta Gaming and Liquor Commission – began participation July 1, 1999
- Alberta Energy and Utilities Board – began participation July 1, 1999
- Alberta Alcohol and Drug Abuse Commission – began participation July 1, 1999
- Legislative Assembly of Alberta – began participation July 1, 1999
- Office of the Information and Privacy Commissioner – began participation July 1, 1999
- Natural Resources Conservation Board – began participation September 1, 2001
- Alberta Pensions Administration Corporation – began participation February 1, 2004
- Alberta Local Authorities Pension Plan Corp. – began participation February 1, 2006
- Alberta Research Council – began participation October 1, 2006

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

FINANCIAL STATEMENTS

DECEMBER 31, 2007

Management's Responsibility for Financial Reporting

The Supplementary Retirement Plan for Public Service Managers' (Plan) financial statements and financial information in the 2007 Annual Report are the responsibility of the Minister of Finance and Enterprise. Certain of these responsibilities are undertaken on behalf of the Minister of Finance and Enterprise by:

- Alberta Investment Management (AIM), the investment operation of Alberta Finance and Enterprise, which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board; and
- Alberta Pensions Administration Corporation (APA), which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance and Enterprise. This responsibility also includes compilation of the Plan's Annual Report.

The information in the annual report has been approved by the SRP Advisory Committee. The financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by APA and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance and Enterprise in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2007 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance and Enterprise, APA and AIM each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Original signed by

Robert Bhatia
Deputy Minister of Finance and Enterprise

April 18, 2008

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 Dunn, FCA
Auditor General

Edmonton, Alberta
April 18, 2008

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

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Statement of Net Assets Available for Benefits

As at December 31, 2007

	2007	2006
	($ thousands)	
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.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2007

	2007	2006
	($ thousands)	
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.

Note 1 Summary Description of the Plan (continued)

(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.

(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.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(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.

(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)

	2007			2006		
	Fair Value			Fair Value		
	($ thousands)		%	($ thousands)		%
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 Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

Note 4 Investment Risk Management

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

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate form the basis for determining the economic assumptions used in calculating the actuarial liabilities.

Note 4 Investment Risk Management (continued)

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% fixed income instruments and 55% 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.

Note 5 Derivative Contracts (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:

	2007					2006	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
		%			($ thousands)		
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

	2007	2006
	($ thousands)	
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 Actuarial Value of Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2005 by Aon Consulting Inc. and was then extrapolated to December 31, 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

Note 7 Actuarial Value of Accrued Benefits (continued)

(a) Actuarial Valuation (continued)

The following table shows the principal components of the change in the actuarial value of accrued benefits:

	2007	2006
	($ thousands)	($ thousands)
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.

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:

		Sensitivities	
	Changes in Assumptions %	Decrease in Net Assets ($ millions)	Increase in Benefits Earned ($ millions)
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 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:

	2007	2006
	($ thousands)	
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**

Note 9 Net Investment Income (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 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:

	2007	2006
	($ thousands)	
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 A

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Schedule of Investments in Fixed Income Securities

December 31, 2007

	Plan's Share	
	2007	**2006**
	($ thousands)	
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**