

REVENUE

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REVENUE

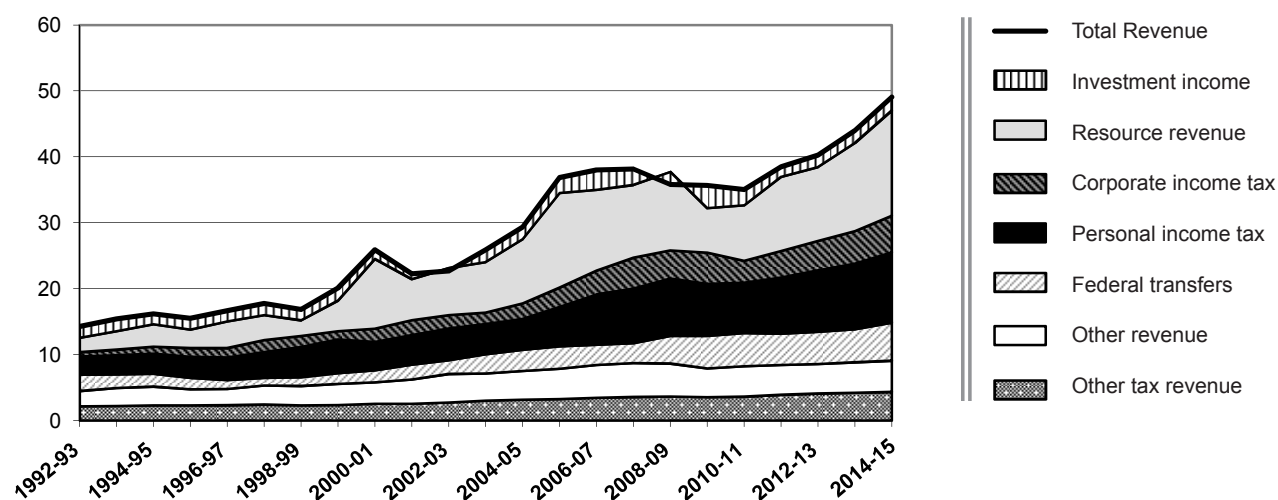
HIGHLIGHTS

- ✧ Total revenue expected to increase by \$1.8 billion, or 4.6%, to \$40.3 billion in 2012-13, and average 10% growth for the next two years.
- ✧ Resource revenue estimated at \$11.2 billion in 2012-13, and expected to average 19% growth for the next two years, led by bitumen royalties.
- ✧ 2012-13 forecasts: oil price of US\$99.25 per barrel (bbl); natural gas price (Alberta Reference Price) of Cdn\$3.00 per gigajoule (GJ); US-Canadian dollar exchange rate of 98.6¢.
- ✧ Tax revenue estimated at \$17.9 billion in 2012-13, an increase of 8.7% from 2011-12, and expected to average 7.2% growth for the next two years. This reflects the positive outlook for the economy, personal incomes and corporate profits.
- ✧ An expected decline in federal transfers as infrastructure stimulus programs wind down is more than offset by increasing health and social transfers, with a significant jump in 2014-15 as a result of equitable Canada Health Transfer treatment for Albertans.

REVENUE OUTLOOK

The Alberta economy is forecast to grow 3.8% in 2012, aided by strong global demand for oil, rising manufacturing shipments, strong consumer spending and solid gains in business investment. Alberta's job market, the strongest in the country in 2011, will continue to perform well in 2012, boosting wages and personal incomes and helping to attract more people to Alberta.

Total Revenue, 1992-93 to 2014-15
(billions of dollars)



In 2002-03 and 2008-09, the value of Alberta's investment assets fell. This is accounted for as negative income.

Amidst strong economic growth in Alberta and a positive outlook for energy prices, revenue is forecast to grow 4.6% in 2012-13, rising \$1.8 billion to \$40.3 billion. The increase is primarily due to higher income tax revenue, federal transfers and investment income, offset by slightly lower non-renewable resource and gaming revenue.

Revenue forecast to grow 4.6% in 2012-13 and then by 10% a year, reaching \$49 billion by 2014-15.

The outlook for the following two years is positive with growth in emerging markets supporting increasing energy prices and strong provincial economic growth. Revenue is forecast to grow an average of 10% over the following two years, reaching \$49 billion in 2014-15, mainly due to higher income tax revenue, resource revenue and Canada Health Transfer revenue as the federal government moves to an equitable funding model.

Total Revenue

(millions of dollars)

	2010-11 Actual	2011-12 Budget	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Personal income tax	7,631	8,812	8,521	9,314	9,936	10,637
Corporate income tax	3,334	3,671	4,010	4,471	4,964	5,565
Other tax revenue	3,629	3,866	3,932	4,106	4,229	4,348
Non-renewable resource revenue	8,428	8,321	11,277	11,198	13,368	15,971
Federal transfers	5,025	4,768	4,727	4,915	5,001	5,788
Investment income	2,360	1,927	1,496	1,794	1,874	1,999
Other revenue	4,627	4,422	4,536	4,465	4,617	4,736
Total Revenue	35,034	35,787	38,499	40,263	43,989	49,044





NON-RENEWABLE RESOURCE REVENUE

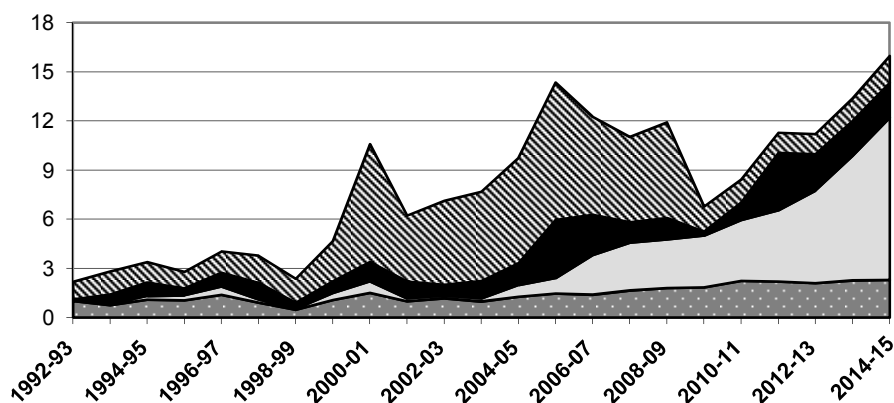
Non-renewable resource revenue is forecast to reach a record-high \$16 billion by 2014-15.

Non-renewable resource revenue, which accounts for 28% of total revenue, is forecast at \$11.2 billion in 2012-13, \$79 million lower than 2011-12. The decline is due primarily to a \$1.3 billion drop in Crown land lease sales and a reduction in conventional oil royalties, partly offset by a \$1.3 billion increase in bitumen royalties. Even with the decline, 2012-13 revenue is forecast to be the fifth-highest on record. Revenue is forecast to increase an average of 19% over the next two years, reaching \$16 billion by 2014-15, the highest on record, due mainly to increasing bitumen royalties.

Non-Renewable Resource Revenue, 1992-93 to 2014-15

(billions of dollars)

Natural gas/by-products royalty 
 Other 
 Bitumen royalty 
 Crude oil royalty 



OIL ROYALTIES

Bitumen and conventional oil are forecast to account for 69% of non-renewable resource revenue in 2012-13. The outlook for oil prices is positive in the short term due to escalating tensions in the Middle East and better-than-expected economic data from the United States. The price for West Texas Intermediate (WTI) is forecast at US\$99.25/bbl in 2012-13, an increase of \$3 from 2011-12. Over the medium term, global economic growth is expected to accelerate, boosting demand, with prices forecast to rise to US\$106.25 in 2013-14 and US\$108.25 in 2014-15. The forecast increase in price is slightly less than the average of confidential private sector forecasts provided to the government and higher than that of the average of all private forecasters, which is brought down by some forecasters who have not factored in continued growth in global demand.

Oil prices forecast to rise with positive global economic growth.

Oil Assumptions

(millions of dollars)

	2010-11 Actual	2011-12 Budget	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Revenue (\$ millions)						
Bitumen royalty	3,723	4,123	4,355	5,653	7,617	9,916
Crude oil royalty	2,236	1,925	2,199	2,100	2,265	2,295
Price						
West Texas Intermediate (US\$/bbl)	83.38	89.40	96.25	99.25	106.25	108.25
Western Canadian Select @ Hardisty (Cdn\$/bbl)	66.70	72.02	77.98	83.28	91.23	92.94
Production						
(thousands of barrels per day)						
Conventional	464	484	492	524	529	515
Non-conventional	1,614	1,850	1,788	2,045	2,208	2,402

Bitumen royalties are forecast to account for just over half of non-renewable resource revenue in 2012-13. Bitumen prices continue to be relatively high as the demand for heavy oil from US refineries continues to be strong. In 2012-13, prices are estimated to climb to Cdn\$83.28/bbl from Cdn\$77.98 in 2011-12. Prices are forecast to continue rising, and are forecast at Cdn\$92.94/bbl in 2014-15. Production is also expected to rise as more projects come on stream, growing by 14% in 2012-13, and then by 8% in 2013-14 and 8.8% in 2014-15.

Bitumen royalties will more than double from 2011-12 to 2014-15.

It is also expected that an increasing number of projects will reach payout over the next three years, when total revenue from the project exceeds total development costs. Projects in payout pay higher royalty rates: prior to payout, royalties are between 1-9% of gross revenue (depending on the WTI price in Canadian dollars), while post-payout, royalties are the greater of 1-9% of gross revenue or 25-40% of the project's net revenue.

Based on higher prices and production and as more projects reach payout, bitumen royalties are forecast at \$5.7 billion in 2012-13, an increase of \$1.3 billion, or 30%, from 2011-12. Royalties are forecast to jump dramatically over the next two years, rising by an average of 32% a year, reaching \$9.9 billion by 2014-15.

*North West Upgrader scheduled to
begin operations in 2014.* ||

The Crown may, by regulation, take bitumen royalties “in-kind” rather than in cash. The government plans to supply bitumen to the North West Upgrader, which is tentatively scheduled to begin operations in 2014. The facility will upgrade bitumen into higher-valued products such as ultra-low sulphur diesel.

The province will receive a portion of the revenue from the sale of the upgraded product. The province is also responsible to pay a monthly cost of service toll for the 30-year term of the contract. The financial return from the project is heavily dependent on the costs of constructing and operating the facility, as well as the price differential between bitumen and upgraded products over the term of the contract.

Conventional oil royalties are forecast to account for 19% of non-renewable resource revenue in 2012-13. Production rose 6% in 2011-12, and is forecast to grow 6.5% in 2012-13 before leveling off and then declining by 2.6% in 2014-15. The changes to the royalty system have encouraged the use of new technologies to drill wells that previously would have been too costly to develop. For the first eleven months of 2011, 41% more oil wells were drilled than in the same period in 2010.

While production is increasing and prices are higher, royalties are forecast to drop by \$99 million in 2012-13. A majority of the new production that is coming on stream is from horizontal oil wells, which are eligible for the horizontal well royalty rate. Horizontal wells receive the 5% royalty rate for the first year like all conventional oil and gas wells drilled in Alberta, but can receive the 5% rate for an additional one to three years depending on the depth of the well. Over the following two years, royalties will rise by an average of 4.5% to \$2.3 billion.

BRENT-WTI PRICE DIFFERENTIAL

Different regions of the world use different oil price benchmarks, mainly determined by where the oil is produced. Oil produced in North America typically uses West Texas Intermediate (WTI) as a benchmark price, while oil produced in Europe and OPEC countries typically uses the Brent benchmark. In the past, these two benchmarks were relatively close to each other, but recently, Brent prices have been higher than WTI. Brent prices have been driven upwards due to unrest in the Middle East and production problems in the North Sea while WTI prices have been driven downwards due to a glut of supply in Cushing, Oklahoma, where the WTI price is set.

This affects Alberta's revenue in two main ways. First, lower WTI prices mean lower royalties and lower profitability for energy companies, which lowers corporate tax revenue. Second, bitumen must be mixed with a lighter fluid in order to be transported.

Many producers use condensate, a light fuel oil, for this purpose. The price for condensate follows the Brent benchmark. This results in lower net income for bitumen producers as the costs of condensate (Brent) rise faster than the prices that can be obtained by bitumen producers (WTI). Because bitumen royalties are calculated on a net basis, lower net income results in lower royalties.

Brent was trading at about 33% higher than WTI as recently as September 2011, but the spread has narrowed and is now closer to 10%, as a result of recent pipeline developments in the United States that will enable oil at Cushing to reach the US Gulf Coast. This is expected to ease the existing supply glut at Cushing and support stronger WTI prices. The forecast assumes a 10% premium to Brent versus WTI, narrowing to 5% by 2014.

NATURAL GAS AND BY-PRODUCT ROYALTY

Natural gas and by-product royalties continue to decline as a share of non-renewable resource revenue. As recently as 2008-09, natural gas and by-product royalties accounted for nearly half of total non-renewable resource revenue, but are now forecast to account for only 11% of the total in 2012-13.

The outlook for natural gas continues to be weak. In the short term, a mild North American winter has dampened demand. Natural gas storage levels remain high as production of shale gas continues to expand despite low prices and modest demand growth. The forecast natural gas price for 2012-13 is Cdn\$3.00/GJ, a drop of 11 cents from 2011-12 and 28 cents lower than 2010-11. Over the medium term, prices are expected to rise as demand strengthens, and are forecast to reach Cdn\$4.25/GJ by 2014-15.

|| Natural gas prices expected to strengthen.

Natural Gas Assumptions

(millions of dollars)

	2010-11	2011-12	2011-12	2012-13	2013-14	2014-15
	Actual	Budget	Forecast	Estimate	Target	Target
Revenue (\$ millions)	1,416	1,022	1,225	1,222	1,381	1,641
Price (Cdn\$/GJ)	3.28	3.45	3.11	3.00	3.50	4.25
Production (billions of cubic feet)	4,530	4,055	4,327	4,085	3,888	3,734

Natural gas production is expected to decline during the next three years, by 5.6% in 2012-13, and then a further 4.8% and 4% in 2013-14 and 2014-15, respectively.

Partly offsetting weak natural gas royalties has been higher royalties for natural gas by-products. Prices for these by-products, which include propane, butane and pentane, more closely track oil prices, and royalties from these products have risen along with oil prices.

Natural gas and by-product royalties are expected to be almost identical in 2012-13 relative to 2011-12. As natural gas prices are forecast to increase over the following two years, royalties are expected to increase, by an annual average of 16%, reaching \$1.6 billion in 2014-15.

BONUSES AND SALES OF CROWN LEASES

Bonuses from licences and leases were particularly strong in 2011-12, with higher prices per hectare and more hectares sold. The June 1, 2011 sale brought in \$842 million, the highest one-day sale amount in Alberta's history.

|| Strong land lease sales revenue to continue.

Bonuses are expected to fall to \$2 billion in 2012-13 and will account for 18% of non-renewable resource revenue. While this represents a decline of \$1.3 billion from 2011-12, revenue remains high by historical standards. Revenue is forecast to remain at \$1.9 billion for 2013-14 and 2014-15.

Non-Renewable Resource Revenue

(millions of dollars)

	2010-11 Actual	2011-12 Budget	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Bitumen royalty	3,723	4,123	4,355	5,653	7,617	9,916
Crude oil royalty	2,236	1,925	2,199	2,100	2,265	2,295
Natural gas and by-products royalty	1,416	1,022	1,225	1,222	1,381	1,641
Bonuses and sales of Crown leases	2,635	1,068	3,304	2,037	1,916	1,926
Rentals and fees	161	141	168	151	149	147
Coal royalty	31	42	26	35	40	46
Drilling stimulus initiatives	(1,774)	—	—	—	—	—
Total Resource Revenue	8,428	8,321	11,277	11,198	13,368	15,971

TAX REVENUE

Tax revenue is forecast to rise \$1.4 billion, or 8.8% in 2012-13.

Tax revenue, which accounts for 44% of total revenue, is forecast at \$17.9 billion in 2012-13, an increase of \$1.4 billion from 2011-12, due mainly to strong growth in personal and corporate income tax revenue. Due to changes to accounting standards, the amounts provided through the Alberta Family Employment Tax Credit and Scientific Research and Experimental Development Credit are now reported in operating expense and no longer deducted from personal and corporate income tax revenue. As a result, revenue reported in 2010-11 and in 2011-12 has been restated.

PERSONAL INCOME TAX REVENUE

Personal income tax is forecast at \$9.3 billion in 2012-13, an increase of \$793 million from 2011-12. Revenue in 2011-12 was lowered by \$291 million from the *Budget 2011* forecast due to lower-than-expected 2010 tax year assessments. The weaker assessments lower the forecast base for 2011-12 and future years, and also require a negative prior years' adjustment of \$188 million.

Personal Income Tax Revenue

(millions of dollars)

	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Base revenue	8,709	9,314	9,936	10,637
Adjustment to prior years	(188)			
Total	8,521	9,314	9,936	10,637
Base revenue change (%)		6.9	6.7	7.1

Base personal income tax revenue forecast to increase 6.9% in 2012-13.

After adjusting for this decrease, base personal income tax revenue is expected to increase by 6.9%. Alberta personal income is forecast to grow by 6.2% in 2012 and 6% in 2013, due to strong employment and wage growth, and is expected to remain above 6% for 2014 and 2015. This results in average annual personal income tax revenue growth of 6.9% over the following two years, with revenue forecast to reach \$10.6 billion in 2014-15.

CORPORATE INCOME TAX REVENUE

Corporate income tax revenue is forecast at \$4.5 billion in 2012-13, an increase of \$461 million from 2011-12, or 11%, due to strong expected growth in corporate profits. With a positive outlook for the Alberta economy and the energy sector in particular, revenue is forecast to continue to grow at an impressive pace, at an average of 12% for the following two years. Corporate income tax revenue is forecast at \$5.6 billion in 2014-15.

Corporate income tax revenue expected to grow by an average of over 11.5% over next three years.

Corporate Income Tax Revenue

(millions of dollars)

	2010-11 Actual	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Total	3,334	4,010	4,471	4,964	5,565
Revenue change (%)		20.2	11.5	11.0	12.1

For the purposes of calculating the provincial Scientific Research and Experimental Development Credit, the federal investment tax credit will no longer be deducted, effective for all tax years ending after March 31, 2012. This will enhance the Credit by about \$25 million annually, or roughly 35%.

EDUCATION PROPERTY TAX REVENUE

Education property tax revenue is forecast at \$1.8 billion in 2012-13, an increase of \$107 million, or 6.5%. 2012 education property tax rates are being frozen at 2011 levels. The residential/farm rate will be \$2.70 per \$1,000 of equalized assessment and the non-residential rate will be \$3.97 per \$1,000 of equalized assessment. Since the government took over responsibility for the education property tax in 1993, rates have been lowered or frozen in each year, and rates have dropped by 65% since then.

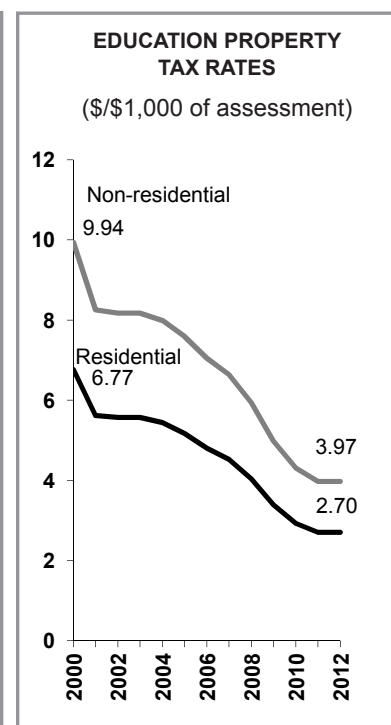
OTHER TAX REVENUE

Other tax revenue is estimated at \$2.3 billion in 2012-13, an increase of \$67 million or 2.9%. Most of these taxes are volume-based, so revenue is driven largely by economic and/or population changes. Revenue is anticipated to increase by an average of 3% for the following two years, reaching \$2.5 billion in 2014-15.

Tax Revenue

(millions of dollars)

	2010-11 Actual	2011-12 Budget	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Personal income tax	7,631	8,812	8,521	9,314	9,936	10,637
Corporate income tax	3,334	3,671	4,010	4,471	4,964	5,565
Education property tax	1,589	1,634	1,655	1,762	1,812	1,859
Other taxes	2,040	2,232	2,277	2,344	2,417	2,489
Total	14,594	16,349	16,463	17,891	19,129	20,550



FEDERAL TRANSFERS

The shift to an equitable funding model for CHT significantly boosts 2014-15 federal transfer revenue.

Federal transfers, which account for 12% of total revenue, are forecast at \$4.9 billion in 2012-13, an increase of \$188 million from 2011-12. Increasing Canada Health Transfer and Canada Social Transfer revenue is expected to more than offset other reductions primarily related to the winding down and expiration of major federal stimulus programs for infrastructure. Federal transfers are forecast to increase by 1.7% in 2013-14 and then jump by 16% in 2014-15, to \$5.8 billion, as funding for the Canada Health Transfer shifts to an equitable model.

CANADA HEALTH TRANSFER

Canada Health Transfer revenue is estimated to increase 8.7% in 2012-13, mainly due to the legislated 6% increase in the cash value of the national transfer and Alberta's increasing share of the national population.

Beginning in 2014-15, Alberta will receive equal per-capita cash under the Canada Health Transfer. Alberta is currently the only province to receive less than equal per-capita funding under the Canada Health Transfer. The federal government's commitment to change to an equitable funding model will boost revenue by nearly \$1 billion.

Transfers from Government of Canada (millions of dollars)

	2010-11 Actual	2011-12 Budget	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Canada Health Transfer	2,176	2,266	2,170	2,358	2,500	3,593
Canada Social Transfer	1,215	1,260	1,260	1,310	1,358	1,408
Agriculture support programs	273	287	296	322	333	334
Labour market agreements	229	171	181	173	175	121
Infrastructure support	557	424	418	333	299	38
Other transfers	575	360	402	419	336	294
Total	5,025	4,768	4,727	4,915	5,001	5,788

INVESTMENT INCOME

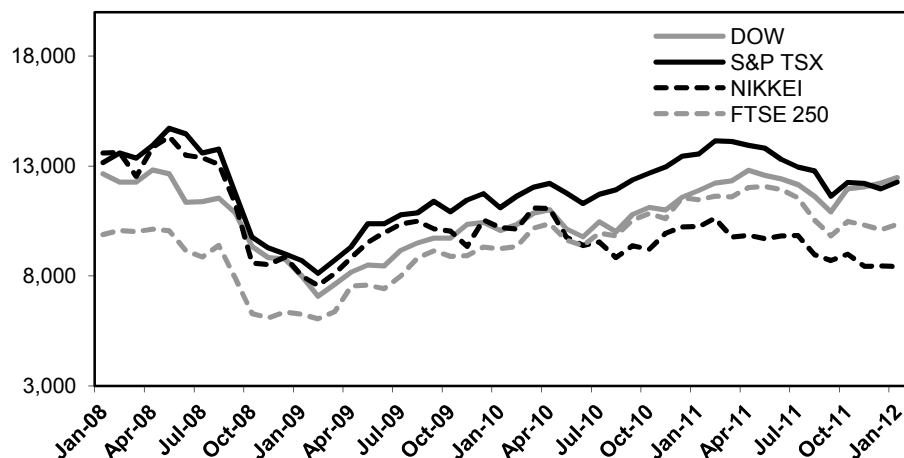
Investment income forecast to recover modestly after poor financial market performance in 2011-12.

Investment income, which accounts for 4.5% of total revenue, is forecast at \$1.8 billion, an increase of \$298 million from 2011-12. Increases in investment income from the Heritage Fund, endowment funds, Alberta Capital Finance Authority and Agriculture Financial Services Corporation are estimated to more than offset lower income from the Sustainability Fund and the Debt Retirement Account, whose asset balances are forecast to decline in the near term. Income is forecast to rise by an average of 5.6% over the following two years, reaching \$2 billion in 2014-15.

HERITAGE FUND AND ENDOWMENT FUNDS

These funds, with a forecast book value of \$17.2 billion at March 31, 2012, are invested for long term growth, in diversified portfolios with riskier assets such as equities and illiquid investments including real estate, private equity and infrastructure.

Equity Market Performance, 2008–2012



Income from the Heritage Fund and endowment funds (Alberta Heritage Foundation for Medical Research, Alberta Heritage Scholarship and Alberta Heritage Science and Engineering Research) is estimated to be \$617 million higher in 2012-13 as financial markets are expected to recover from their weak performance through much of 2011-12. Continuing economic uncertainty in the United States and Europe, particularly due to concerns over rising sovereign debt, caused considerable financial market turmoil in mid-2011. As a result, 2011-12 income from the Heritage and endowment funds is forecast to be \$703 million lower than the *Budget 2011* estimate.

Heritage Fund and endowment fund income expected to be \$617 million higher in 2012-13.

While investment income is expected to rebound, the poor market performance has resulted in reduced asset values, and this in turn dampens the recovery in realized income as assets are sold during portfolio turnover. Heritage Fund investment income is estimated at \$986 million in 2012-13, and is forecast to climb to \$1.2 billion by 2014-15. Income of the three endowment funds is forecast at \$176 million in 2012-13, rising to \$191 million by 2014-15.

SUSTAINABILITY FUND

The Sustainability Fund offsets deficits and net government cash requirements. As a result, the Fund is invested in short to medium term, relatively liquid assets. Sustainability Fund income is estimated to be \$330 million lower in 2012-13, as funds are withdrawn to offset the deficit and cash requirements, and the asset balance is forecast to fall to \$3.7 billion at March 31, 2013. With a return to surplus in 2013-14, and the 2014-15 surplus exceeding net cash requirements in 2014-15, the Fund balance and investment income are forecast to increase.

Replenishment of Sustainability Fund to begin in 2014-15.

Fund Assets / Investment Income

(millions of dollars)

	Assets as at Mar. 31, 2012	2010-11 Actual	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Heritage Fund	14,581	1,152	480	986	1,098	1,158
Endowment Funds ^a	2,609	221	65	176	185	191
Sustainability Fund	7,462	579	495	165	90	105
Alberta Capital Finance Authority	10,919	181	244	254	261	268
Agriculture Financial Services Corp.	3,097	109	110	130	157	185
Other ^b	1,092	118	102	83	83	92
Total	39,760	2,360	1,496	1,794	1,874	1,999

^a Includes Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund and Alberta Heritage Science and Engineering Research Fund.

^b Assets include the Debt Retirement Account, Cancer Prevention Legacy Fund and Alberta Enterprise Fund; investment income includes income from these sources and other investment income from a variety of smaller funds and accounts.

OTHER REVENUE

*Other revenue forecast to reach
\$4.7 billion by 2014-15.*

Other revenue accounts for 11% of total revenue. It is estimated at \$4.5 billion in 2012-13, a decrease of \$71 million from 2011-12. Revenue is forecast to increase by an average of 3% over the following two years, reaching \$4.7 billion by 2014-15. Changes from 2011-12 include:

- ◆ A \$79 million decrease in net income from the Alberta Gaming and Liquor Commission. The decline is due mainly to higher amortization expense from the replacement of Video Lottery Terminals across the province, partly offset by higher liquor revenue.
- ◆ Alberta Treasury Branches net income will rise \$8 million to \$214 million in 2012-13, then jump to \$330 million by 2014-15 due to efficiencies generated by the new banking system and higher interest income.
- ◆ A \$12 million increase in premiums, fees and licences revenue, with higher motor vehicle licence revenue, partly offset by lower revenue from crop and livestock insurance premiums and land titles.
- ◆ A \$12 million decrease in other revenue. Increases due mainly to the sale of land for development in Fort McMurray are more than offset by decreases mainly related to revenue not expected at the same level in 2012-13, including proceeds from Land Stewardship Fund sales of public land, refunds of expense and contributions for transportation infrastructure.

Revenue from Other Sources

(millions of dollars)

	2010-11 Actual	2011-12 Budget	2011-12 Forecast	2012-13 Estimate	2013-14 Target	2014-15 Target
Alberta Gaming and Liquor Commission	2,125	2,106	2,116	2,037	2,073	2,141
Alberta Treasury Branches	199	188	206	214	279	330
Premiums, fees and licences	1,285	1,396	1,379	1,391	1,433	1,486
Other	1,018	732	835	823	832	779
Total	4,627	4,422	4,536	4,465	4,617	4,736

RISKS

Alberta relies heavily on revenue sources that can be volatile and unpredictable, including non-renewable resources, corporate income tax and investment income. Since 2000-01, these revenue sources have accounted for anywhere between 38% and 55% of total revenue, and are forecast to account for 43% of total revenue in 2012-13. This revenue is linked to factors such as energy prices, equity markets and exchange rates, which have fluctuated dramatically in recent years and are outside Alberta's influence.

These factors can vary significantly from assumptions used to prepare budget forecasts. In-year changes can be sudden and are usually unpredictable by either internal government forecasters or private forecasters. Large deviations from budgeted revenue have resulted.

Revenue in 2011-12 is 7.6% higher than the budget estimate, and there has been considerable variability within specific revenue sources: Crown land lease sales revenue has tripled, while Heritage Fund income is half of forecast. There have also been swings within the year: the *2011-12 First Quarter Fiscal Update* forecast revenue of \$38.3 billion, the second quarter forecast was \$36.8 billion, while the third quarter forecast is back to \$38.3 billion.

This degree of uncertainty places Alberta in a unique position relative to other jurisdictions. Like energy companies, banks and other investors, Alberta must assess the degree of risk it is willing to take associated with its revenue outlook and spending decisions. Revenue in 2012-13 could be as much as 10%-20% higher or lower than estimated, depending on variations in energy prices, exchange rates, economic growth or equity markets.

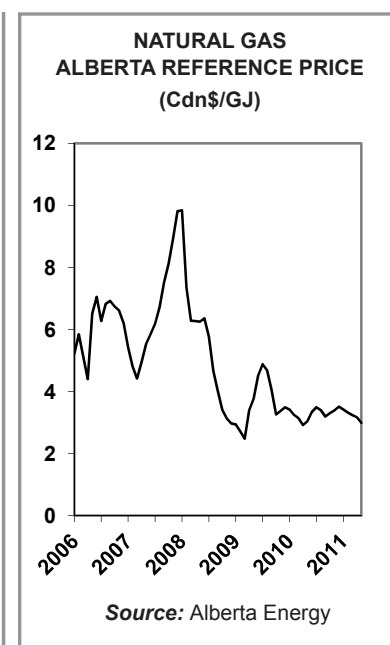
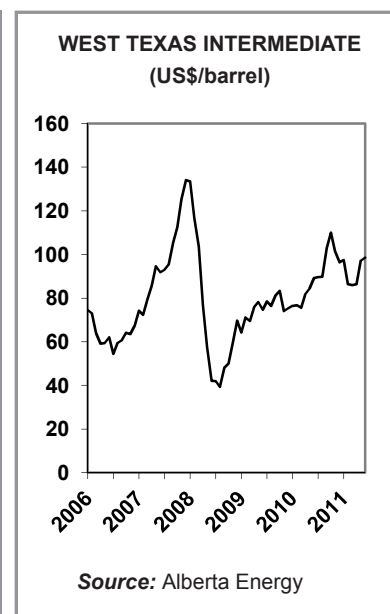
GLOBAL ECONOMY

- ◆ *Budget 2012* assumes global economic growth of around 3% in 2012, slowing from an estimated 4% in 2011. Growth is moderating due to sovereign debt concerns in Europe, a weak housing market and the bleak fiscal situation in the US and signs of a slowdown in China and India.
- ◆ Global growth prospects affect Alberta's revenue through the impact on energy prices, equity market returns and exchange rates.

ENERGY PRICES

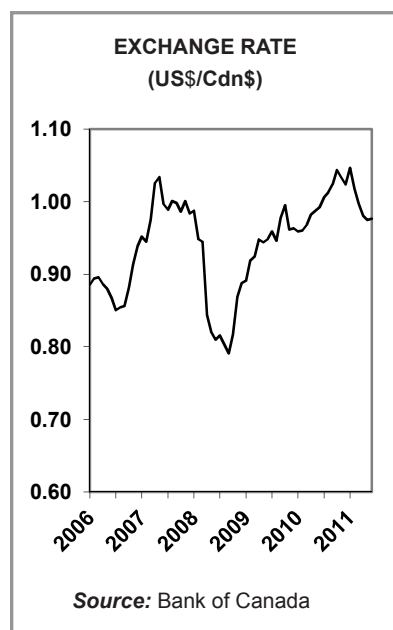
- ◆ Oil prices are closely linked to global economic and geopolitical conditions, and other factors. Determining prices three years out is difficult.
- ◆ Natural gas prices remain weak due to a mild winter and increasing US shale gas production that has outstripped demand growth. Prices are not forecast to rise until 2013-14. Weaker-than-expected US growth or higher production of shale gas would continue to keep prices depressed.
- ◆ Recent changes to the royalty framework reduce the volatility of conventional oil and natural gas royalties in response to changing prices. Under the new framework, the royalty rate is 5% for the first year of a well's production or until the well reaches a production ceiling. Certain wells are eligible for the 5% rate for a longer period of time. Most royalty rates are lower at a given price and level of production than under the old framework, and with reduced maximum rates.

Alberta's revenue is volatile, creating risks for fiscal planning.



INTEREST RATES

- ◆ Interest rates are expected to increase as financial markets stabilize and global economic growth moves to a firmer footing. Higher rates generally reduce government investment income. While short-term investments benefit, higher rates cause an immediate reduction in the market value of bonds held in endowment portfolios.
- ◆ Rate increases could also discourage business investment, reduce economic activity and lower revenue from royalties and taxes.
- ◆ Government borrowing for capital projects adds risk, as higher future interest rates would make refinancing of debt more expensive.



EXCHANGE RATES

- ◆ The strong Canadian dollar is expected to dampen exports and Alberta's economic growth. Changes in the exchange rate affect the profitability of energy producers, which can affect investment and government resource revenue as energy prices and contracts are mainly in US dollars. Investment income is also affected due to significant foreign holdings in the Heritage Savings Trust Fund and endowment funds.

EQUITY MARKETS

- ◆ While equity markets are expected to strengthen with firmer global economic growth, markets are affected by a wide range of inter-related factors. Examples are current concerns over US and European sovereign debt levels, commodity prices and interest rates.
- ◆ Alberta has significant assets invested globally in a variety of asset classes. The investment income forecast is based on long-run expected rates of return. Annual market performance is likely to vary considerably from the average. Investment income could be much greater or lower than forecast.

CORPORATE PROFITS

- ◆ Corporate profits are expected to increase with economic growth, particularly in the energy sector. However, reported strong profits do not necessarily correspond to increases in corporate income tax revenue. Taxable income can differ from profits as corporations utilize discretionary tax deductions such as depreciation, or bring forward prior-year losses.

Sensitivities to Fiscal Year Assumptions, 2012-13^a

(millions of dollars)

	Change	Net Impact (2012-13)
Oil Price (WTI US\$/bbl)	-\$1.00	-223
Natural Gas Price (Cdn\$/GJ)	-10 Cents	-28
Exchange Rate (US\$/Cdn\$)	+ 1 Cent	-247
Interest Rates	+1%	-223
Personal Income	-1%	-119

^a Sensitivities are based on current assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land sales. The interest rate sensitivity has two components, an increase in cash interest income and a capital loss. When interest rates rise, bond prices go down, causing a capital loss.

A US\$1 change in the oil price has a net \$223 million impact, while a 1 cent change in the US-Canadian dollar exchange rate has a net impact of \$247 million.