2004-05 Third Quarter Update

Alberta Heritage Savings Trust Fund

For the nine months ended December 31, 2004

Heritage Fund

Alberta

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THIRD QUARTER UPDATE
DECEMBER 31, 2004

Alberta Heritage Savings Trust Fund

QUARTER IN REVIEW

The Heritage Fund contributed $350 million to the Province's general revenues in the third quarter compared to $170 million in the second quarter and $328 million in the first quarter bringing total contributions for the past nine months to $848 million. Contributions help finance Albertans' priorities such as healthcare, education, roads and tax reductions.

The Canadian economy continued to grow in the third quarter. The economy overall remained buoyant due to higher personal consumption, low interest rates, surging employment, strong exports and rising disposable income. The housing market in particular, continued to be robust.

Oil prices increased to record levels this quarter. West Texas Intermediate (WTI) rose to $55.17 US$/bbl by late October before falling to $43.45 US$/bbl at December 31, 2004, down from $49.64 at September 30, 2004. As a result of higher oil prices, the energy sector has led all other sectors in the S&P/TSX Index increasing by 30.3% over the past year. The S&P/TSX Index increased by 7.2% this quarter for an overall increase of 9.2% over nine months.

The Canadian dollar continued to increase in value relative to the U.S. dollar. At December 31, 2004, 1 US dollar purchased $1.20 Cdn compared to $1.26 at September 30, 2004 and $1.31 Cdn at March 31, 2004. As a result, the value of the Heritage Fund's United States equity investments declined when translated into Canadian dollars resulting in lower investment returns.

Over the quarter, the U.S. market measured by the S&P 1500 Index increased by 9.6% in US dollars and 4.4% in Canadian dollars.

The non-North American market measured by the MSCI EAFE Index increased by 9.8% this quarter in Canadian dollars.

Market Summary

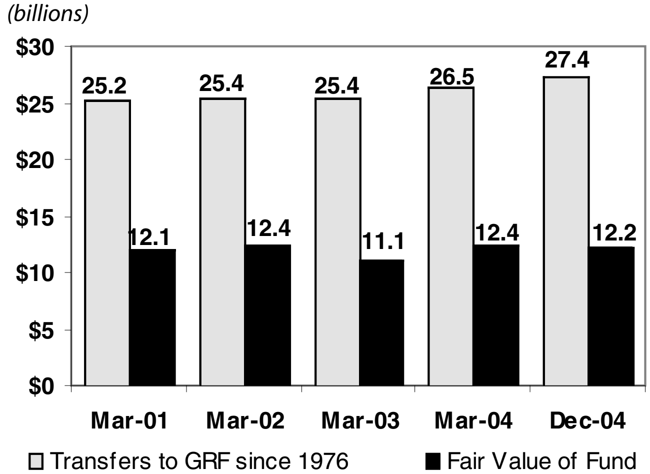
Benchmark Index Returns as at December 31, 2004

	Current Quarter %	Nine Months %
Stock Markets		
Canadian		
S&P/TSX Composite Index	7.2	9.2
United States		
S&P 1500 Index (US $)	9.6	9.4
S&P 1500 Index (Cdn $)	4.4	0.5
Non North American		
MSCI EAFE Index (Cdn $)	9.8	5.9
Canadian Bond Market		
SC Bond Universe Index	3.1	3.9

Fund Value

At December 31, 2004, the fair value of the Heritage Fund, after transfers to the General Revenue Fund (GRF), stood at $12.2 billion up from $11.9 billion at the beginning of the quarter and down from $12.4 billion at March 31, 2004. Since March 31, 2004, the fair value of the Fund's investments, before transfers to the GRF, increased by $661 million or 5.6%. However, the increase in fair value of the investments was offset by transfers to the GRF totalling $848 million, resulting in a net decrease in the Fund's value of $187 million. Since 1976 total transfers to the GRF have increased to approximately $27.4 billion.

Fund Value and Transfers to the General Revenue Fund
(billions)



INVESTMENT INCOME

The Fund recorded net income of $350 million this quarter and $848 million over nine months. Over the past nine months, interest, dividends, real estate income and security lending income totalled $332 million, net of administrative expenses. Net realized capital gains from sale of securities and gains and losses from derivative transactions totalled $516 million.

NET Investment Income (Loss)

(millions)

	Fixed Income	Equity Income	Real Estate	Absolute Return Strategies	Total
2004-05 9 mos.	$ 210	$ 573	$ 47	$ 18	$ 848
2003-04	304	737	54	38	1,133
2002-03	286	(1,224)	39	5	(894)
2001-02	444	(276)	38	-	206
2000-01	532	157	17	-	706
1999-00	610	539	20	-	1,169

Transfers to the General Revenue Fund

Net investment income earned by the Fund is not reinvested in the Fund. Instead, all of the net income is transferred to the Province's main operating fund, the General Revenue Fund (GRF). Unrealized gains and losses are not included in net income and are therefore not included in transfers to the GRF.

The Fund's net income for the nine months ended December 31, 2004, amounted to $848 million of which $690 million was transferred to the GRF and $158 million remains payable to GRF.

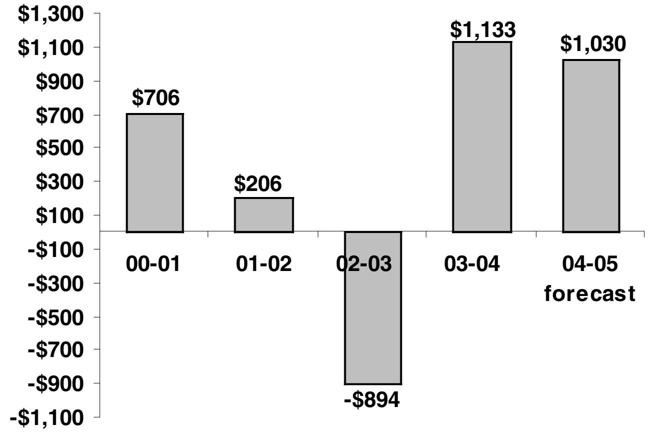
Forecast Investment Income

The Fund's forecast investment income for fiscal year 2004-05 is $1,030 million an increase of $383 million from the original budget forecast of $647 million.

The Government of Alberta financial statements are prepared on a consolidated basis, which eliminates the income the Heritage Fund earns from Alberta provincial corporation securities which is forecast to be $16 million for fiscal year 2004-05. On a consolidated basis the Heritage Fund forecast investment income is $1,014 million.

Heritage Fund Net Income

(millions)



Investment Valuation

Investments and investment income are recorded on the financial statements of the Heritage Fund at cost in accordance with government accounting policies. The fair value of the Fund and its investments are provided for information purposes. Management uses fair value to assess the investment performance of the fund against market-based benchmarks.

The Fund's policy is to write down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. Based on management's review, write downs totalling $7.8 million were recorded during the quarter ended December 31, 2004 bringing total write downs over nine months to $24.0 million.

Change in Net Assets

The Heritage Fund accounts for its investments on a cost basis of accounting. Investment income on a cost basis excludes unrealized gains and losses. Investment income on a fair value basis includes unrealized gains and losses. The investment income on a fair value basis for the nine months ended December 31, 2004 was $661 million.

Change in Net Assets

(millions)

	December 31, 2004 Three Months	December 31, 2004 Nine Months	Dec 31, 2003 Nine Months
Fair value, beginning of period	$ 11,931	$ 12,396	$ 11,075
Investment income, cost basis*	350	848	703
Change in unrealized appreciation (depreciation) in value of investments	278	(187)	1,272
Investment income, fair value basis	628	661	1,975
Transfers to the General Revenue Fund**	(350)	(848)	(703)
Fair value, end of period***	$ 12,209	$ 12,209	$ 12,347

* includes interest, dividends, realized gains and losses, and derivative income, less administration expenses

** see financial statements (Note 6)

*** includes investments of $12,359 million less net current liabilities of $150 million.

INVESTMENTS

Asset Mix

The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The policy asset allocation is reported in the Fund's 2004-07 business plan as follows:

Investment Asset Mix

(percent)

ASSET CLASS	2004-05 Long-Term Policy Target	Dec04 Actual	2003-04 Long-Term Policy Target	Mar04 Actual
Fixed income	32.5	32.5	35.0	33.2
Public equities				
Canadian	15.0	20.1	15.0	22.1
United States	15.0	15.1	15.0	15.6
Non-north American	15.0	16.8	15.0	16.4
	45.0	52.0	45.0	54.1
Real estate	10.0	9.0	10.0	7.6
Absolute return strategies	7.5	4.8	5.0	4.0
Private equities	5.0	1.7	5.0	1.1
	100.0	100.0	100.0	100.0

Based on the Heritage Fund 2004-07 business plan, the long term policy asset mix for fixed income securities decreases from 35.0% to 32.5%. The long-term policy mix for public equity investments remains the same at 45.0%. The reduction in Canadian fixed income securities is offset by an increase in absolute return strategy investments. Absolute return strategy investments increase from 5.0% to 7.5% of total portfolio investments. The target for real estate investments remains unchanged at 10.0% of total portfolio investments.

The actual investment mix for fixed income securities decreased slightly to 32.5% from 33.2% at the beginning of the year. Public equity investments decreased from 54.1% to 52.0%. Real estate investments increased from 7.6% to 9.0% of the Fund's total investment portfolio. Absolute return strategies increased from 4.0% to 4.8% of the Fund's investment portfolio. Private equity investments increased from 1.1% to 1.7%.

New Investment Products

Over the past nine months, a number of new investment products have been introduced in order to further diversify the Heritage Fund's investment portfolio and increase investment returns (see Note 3 to the financial statements). In particular the Fund reduced its investment in U.S. large cap equities and purchased U.S. portable alpha investments, which blend absolute return strategies with equity swaps and futures. In the non-North American sector, the Fund added investments in emerging markets. The Fund also redeemed its entire investment in Canadian small cap equities and increased its investment in Canadian and foreign private equities and real estate. During the current quarter, the Fund restructured its actively managed Canadian large cap equity portfolio using enhanced index and multi-cap products. The Canadian enhanced index product is designed to generate a consistent level of return above the S&P/TSX Index with relatively low risk. The Canadian multi-cap product blends both internally managed structured investments replicating the S&P/TSX 60 Index with externally managed equity investments in small and mid capitalization companies.

PERFORMANCE MEASUREMENT

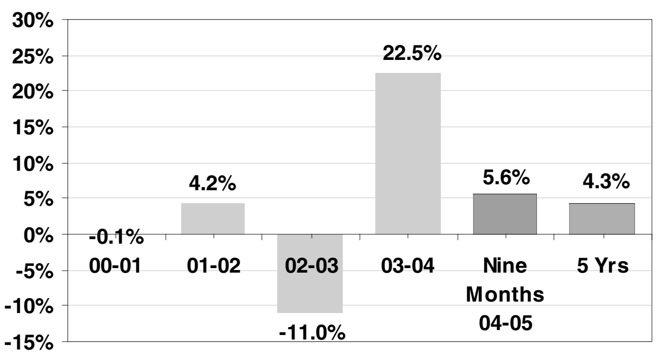
Heritage Fund Rate of Return

The Heritage Fund posted an overall rate of return of 5.3% this quarter, 30 basis points better than the Fund's policy benchmark return of 5.0%. Over nine months, the Fund's investments returned 5.6%, 60 basis points better than the policy benchmark return.

The performance of the Heritage Fund is measured over the long term. Over the past five-year period, the fund generated a nominal annualized return of 4.3%. The Heritage Fund is expected to generate a real rate of return of 4.5% at an acceptable level of risk over a moving five-year period. Over a five-year period, the annualized inflation rate was 2.5%. Therefore, the Fund was expected to generate a nominal annualized rate of return of 7.0%.

Heritage Fund Annual Returns at Fair Value

(percent)



The performance of the Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to their benchmarks.

Business Plan Performance Measures

Heritage Fund (combined) (1)

	Current Quarter	Nine Months	One Year	Five Years(2)
Total Fund return (%)	5.3	5.6	9.5	4.3

Endowment Portfolio

	Current Quarter	Nine Months	One Year	Five Years(2)
Total Portfolio return (%)	5.3	5.6	9.5	3.1
Benchmark return(%)	5.0	5.0	9.0	2.8
Over benchmark	0.3	0.6	0.5	0.3

Actual Returns *(by asset class)*	Percent - %			
	Current Quarter	Nine Months	One Year	Five Years(2)
ST Fixed Income	0.6	1.6	2.2	3.7
LT Fixed Income	3.2	4.3	7.8	8.8
Canadian public equities	7.7	10.4	15.2	4.3
US public equities	4.6	(0.1)	3.2	(5.3)
EAFE public equities	9.9	6.7	12.2	(4.7)
Real estate	2.9	7.8	10.6	8.4
Absolute return strategies	3.4	3.3	6.2	n/a
Private equities	(0.1)	4.2	4.6	n/a
Private income	2.7	3.6	4.4	n/a

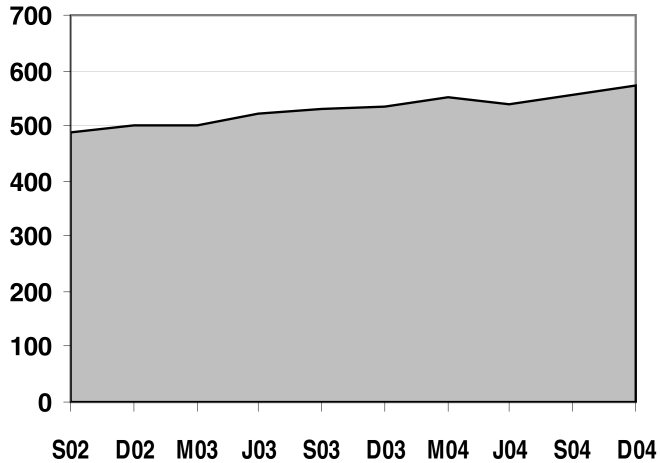
Benchmark Returns *(by asset class)*	Percent - %			
	Current Quarter	Nine Months	One Year	Five Years(2)
SC 91 Day T Bill	0.6	1.6	2.3	3.6
SC Universe Bond Index	3.1	3.9	7.1	8.2
S&P/TSX Index	7.2	9.2	14.5	3.6
S&P 1500 Index (3)	4.4	0.5	3.7	(5.8)
MSCI EAFE Index	9.8	5.9	12.0	(4.8)
CPI plus 5.0% (4)	1.9	5.7	7.5	9.1
CPI plus 6.0%	2.2	6.5	8.5	n/a
CPI plus 8.0%	2.6	7.9	10.5	n/a

(1) The Transition Portfolio was wound up in the first half of 2002-03. The combined Heritage Fund return includes the past performance of the Transition Portfolio.
(2) Annualized
(3) Effective April 1, 2004, the benchmark index for US equities changed from the S&P 500 to the S&P 1500.
(4) Effective April 1, 2003, the benchmark return index for real estate changed from the Russell Canadian Property Index to CPI plus 5.0%.

Fixed Income Investments

The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past quarter, the SC Universe Bond Index increased by 3.1% while the short term SC 91-Day T-Bill Index increased by 0.6%.

SC Universe Bond Index



LT Fixed Income	Actual Return %	Benchmark SC Universe Bond Index %	Over (Under) bps*
Current Quarter	3.2	3.1	10
Nine months	4.3	3.9	40
One Year	7.8	7.1	70
Five Years (annualized)	8.8	8.2	60

ST Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Over (Under) bps*
Current Quarter	0.6	0.6	0
Nine months	1.6	1.6	0
One Year	2.2	2.3	(10)
Five Years (annualized)	3.7	3.6	10

* one basis point equals 0.01%.

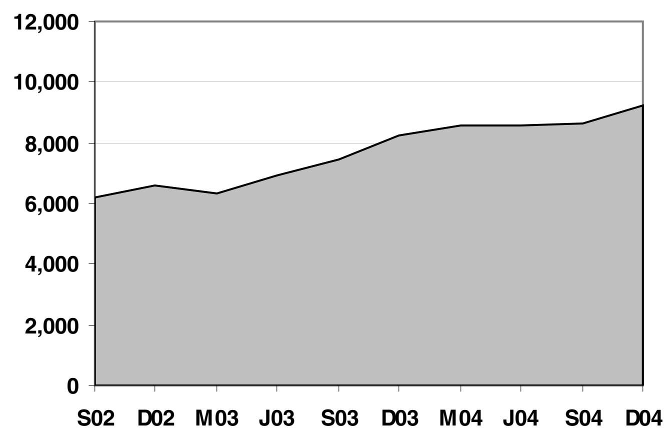
The Fund's actual rate of return over the quarter from long-term Canadian fixed income securities was 3.2%, 10 basis points better than the benchmark SC Universe Bond Index. Over five years, the return from long-term fixed income securities was 8.8% or 60 basis points better than the benchmark of 8.2%. The Fund's return from short-term securities was 0.6% and 3.7% over three months and five years respectively. The Heritage Fund's fixed income portfolio is internally managed through various pools and through direct holdings.

At December 31, 2004, investments in deposits, bonds, notes, short-term paper, provincial corporation debentures and loans totalled 32.5% or $4.0 billion of total portfolio investments, down from 33.2% or $4.2 billion from March 31, 2004.

Canadian Equity Investments

The Canadian stock market finished the quarter on a positive note. The Toronto Stock Exchange S&P/TSX Index, which measures the performance of Canada's top companies, reported a return of 7.2% for the quarter ending December 31, 2004. During the quarter, the telecommunications and utilities sectors led all sectors with returns of 18.7% and 12.2% respectively. The healthcare sector finished the quarter with the lowest return of negative 5.0%. Over one year, the energy sector posted the highest return of all sectors.

S&P / TSX



Canadian Public Equities	Actual Return %	Benchmark S&P/TSX Index %	Over (Under) bps
Current Quarter	7.7	7.2	50
Nine months	10.4	9.2	120
One Year	15.2	14.5	70
Five Years (annualized)	4.3	3.6	70

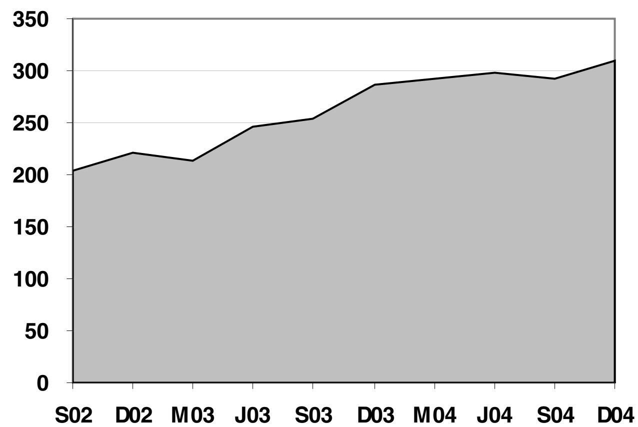
The Heritage Fund's Canadian equity portfolio is held in various investment pools, which are managed by internal and external managers. Over the quarter the Fund's actual return from Canadian equities rose by 7.7%, 50 basis points better than the benchmark return from the S&P/TSX Index of 7.2%. Over five years, the Fund's return from Canadian equities was 4.3% compared to the benchmark return of 3.6%.

At December 31, 2004, investments in Canadian public equities totalled 20.1% or $2.5 billion of the Heritage Fund investment portfolio down from 22.1% or $2.8 billion at March 31, 2004.

United States Equity Investments

The U.S. equity market posted a positive return for the quarter. The Standard & Poor's 1500 Index, S&P 1500, which measures the performance of 1,500 large American companies, increased by 9.6% in US dollars and 4.4% in Canadian dollars.

S&P 1500



US Public Equities	Actual Return %	Benchmark S&P 1500 Index* %	Over (Under) bps
Current Quarter	4.6	4.4	20
Nine months	(0.1)	0.5	(60)
One Year	3.2	3.7	(50)
Five Years (annualized)	(5.3)	(5.8)	50

*Effective April 1, 2004, the benchmark return for US equities changed to the S&P 1500 Index from the S&P 500 Index. The S&P 1500 Index provides a broader coverage of US equities to include smaller capitalization stocks. The S&P 1500 Index covers approximately 90% of US publicity traded equities.

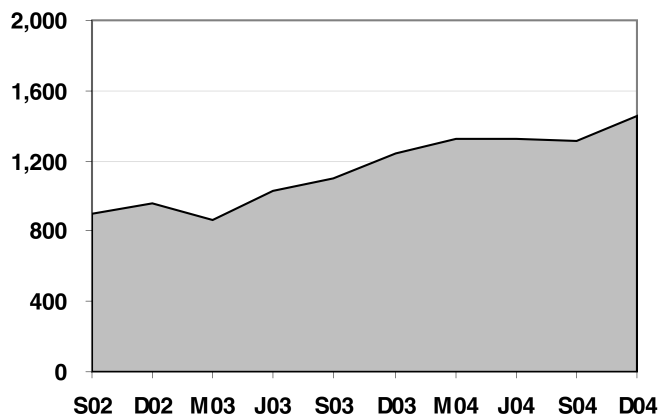
The Fund's actual rate of return over the quarter from US equities was 4.6% in Canadian dollars or 20 basis points better than the S&P 1500 Index. Over five years, the Fund's US equity portfolio returned a negative 5.3% in Canadian dollars, 50 basis points better than the benchmark. The U.S. dollar depreciated by 3.6% per annum during the past five years.

At December 31, 2004, investments in US equities totalled 15.1% or $1.9 billion of the Heritage Fund investment portfolio compared to 15.6% or $2.0 billion at March 31, 2004.

Non-North American Equity Investments

The Non-North American equity market recorded strong gains this quarter. The Morgan Stanley Capital International Index for Europe, Australasia and the Far East, MSCI EAFE Index, measures the performance of approximately 1,000 companies on 21 stock exchanges around the world. The index increased by 9.9% over the quarter in Canadian Dollars.

MSCI EAFE Index



EAFE Public Equities	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under) bps
Current Quarter	9.9	9.8	10
Nine Months	6.7	5.9	80
One Year	12.2	12.0	20
Five Years (annualized)	(4.7)	(4.8)	10

The Fund's actual return from non-North American equities was 9.9%, 10 basis points better than the MSCI EAFE Index. Over five years the Fund's non-North American equity portfolio returned a negative 4.7%, 10 basis points better than the benchmark MSCI EAFE Index.

At December 31, 2004, investments in non-North American equities totalled 16.8% or $2.1 billion of the Heritage Fund investment portfolio compared to 16.4% or $2.1 billion at March 31, 2004.

Real Estate Investments

The Fund's real estate investments are held in the internally managed Private Real Estate Pool and in the newly created Foreign Private Real Estate Pool. Real estate investments earned 2.9% over the quarter and 8.4% over five years.

Real estate	Actual Return %	Benchmark CPI plus 5%* %	Over (Under) bps
Current Quarter	2.9	1.9	100
Nine months	7.8	5.7	210
One Year	10.6	7.5	310
Five Years (annualized)	8.4	9.1	(70)

* Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for five years is a combination of RCPI and CPI plus 5%.

Nearly half of the real estate portfolio is invested in retail, half in office and a small portion in industrial and residential. Approximately 65% of the real estate holdings are located in Ontario, 22% in Alberta, 11% in Quebec and 2% in British Columbia.

At December 31, 2004, investments in real estate totalled 9.0% or $1.1 billion of the Heritage Fund investment portfolio compared to 7.6% or $950 million at March 31, 2004.

Absolute Return Strategies

Absolute return strategy investments encompass a wide variety of investment strategies with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Over the quarter absolute return strategies generated a positive return of 3.4%, 120 basis points better than the benchmark Consumer Price Index (CPI) plus 6.0%.

Absolute Return Strategies	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
Current Quarter	3.4	2.2	120
Nine months	3.3	6.5	(320)
One year	6.2	8.5	(230)
Five Years (annualized)	n/a	n/a	-

At December 31, 2004, investments in absolute return strategies totalled 4.8% or $598 million of total Fund investments compared to 4.0% or $507 million at March 31, 2004.

Private Equity and Private Income Investments

At December 31, 2004, the private equity and private income portfolio comprised a small portion of the Fund's overall investment portfolio at 1.7% or $209 million compared to 1.1% or $136 million at March 31, 2004. During the quarter, the private equity and private income portfolios returned negative 0.1% and positive 2.7% respectively compared to the benchmark Consumer Price Index plus 8%.

Private Equity	Actual Return %	Benchmark CPI plus 8% %	Over (Under) bps
Current Quarter	(0.1)	2.6	(270)
Nine Months	4.2	7.9	(370)
One Year	4.6	10.5	(590)
Five Years (annualized)	n/a	n/a	-

Private Income	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
Current Quarter	2.7	2.2	50
Nine Months	3.6	6.5	(290)
One Year	4.4	8.5	(410)
Five Years (annualized)	n/a	n/a	-

ADMINISTRATIVE EXPENSES

Administrative expenses include investment management and administration expenses. Fees charged by external managers and external administration fees are deducted directly from the income of externally managed investment pools. Internal investment management costs and internal administrative costs are deducted from the internally managed pooled funds and also directly from the Fund. External investment management fees are based on a percentage of net assets under management at fair value. Internal investment management expenses are based on a cost recovery basis.

The Fund's total administrative expenses for the nine months ended December 31, 2004, including amounts deducted from the investment income of the pooled funds, amounted to $16,538,000 or 0.135% of the Funds net assets at fair value compared to $13,857,000 or 0.112% of net assets for the same period last year.

Administrative Expense Breakdown

Nine months ended December 31, 2004 (thousands)

	Nine Months Ended	
	Dec. 31, 2004	Dec. 31, 2003
Direct fund expenses	$ 1,980	$ 1,861
Externally managed investment pools	11,683	9,199
Internally managed investment pools	2,875	2,797
Total	$ 16,538	$ 13,857
Expenses as a percent of net assets at fair value	0.135%	0.112%

Over the past nine months, expenses of direct and internally managed investment pools increased by $197,000 over the same period last year. Expenses from externally managed investment pools increased by $2,484,000 over the same period last year. Increases in management fee rates and assets under management for non-North American equities contributed to the increase in externally managed fees.

Approximately 81% of total administrative expenses relate to investment management and 19% relate to administration.

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2004

BALANCE SHEET

December 31, 2004 (unaudited)

	(thousands) December 31, 2004	March 31, 2004
Assets		
Portfolio investments (Note 3)	$ 11,512,582	$ 11,507,117
Accrued investment income	8,137	7,542
Administration expense receivable	-	310
	$ 11,520,719	$ 11,514,969
Liabilities and Fund Equity		
Liabilities		
Accounts payable	$ -	$ 42
Due to the General Revenue Fund	158,277	152,485
	158,277	152,527
Fund equity (Note 6)	11,362,442	11,362,442
	$ 11,520,719	$ 11,514,969

STATEMENT OF OPERATIONS

for the Nine Months ended December 31, 2004 (unaudited)

(thousands)

	Three Months Ended Dec. 31, 2004	Three Months Ended Dec. 31, 2003	Nine Months Ended Dec. 31, 2004	Nine Months Ended Dec. 31, 2003
Net income (loss) (Note 7)	$ 349,699	$ 317,351	$ 847,792	$ 703,116
Transfers to the General Revenue Fund (Note 6)	349,699	317,351	847,792	703,116
Net change in fund equity (Note 6)	-	-	-	-
Fund equity at beginning of period	11,362,442	11,362,442	11,362,442	11,362,442
Fund equity at end of period	$ 11,362,442	$ 11,362,442	$ 11,362,442	$ 11,362,442

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

STATEMENT OF CASH FLOW

for the Nine Months ended December 31, 2004 (unaudited)

	(thousands)			
	Three Months Ended Dec. 31, 2004	Three Months Ended Dec. 31, 2003	Nine Months Ended Dec. 31, 2004	Nine Months Ended Dec. 31, 2003
Operating transactions				
Net income	$ 349,699	$ 317,351	$ 847,792	$ 703,116
Non-cash items included in net income	(86,089)	(50,416)	(187,519)	(63,857)
	263,610	266,935	660,273	639,259
Decrease (increase) in accounts receivable	15,683	6,118	(285)	7,518
Decrease in accounts payable	-	-	(42)	-
Cash provided by operating transactions	279,293	273,053	659,946	646,777
Investing transactions				
Proceeds from disposals, repayments and redemptions of investments	835,261	319,133	2,022,827	613,438
Purchase of investments	(855,555)	(495,323)	(1,833,282)	(1,109,866)
Cash provided by (applied to) investing transactions	(20,294)	(176,190)	189,545	(496,428)
Transfers				
Transfers to the General Revenue Fund	(349,699)	(317,351)	(847,792)	(703,116)
Increase in amounts due to the General Revenue Fund	85,699	207,351	5,792	373,116
Cash applied to transfers	(264,000)	(110,000)	(842,000)	(330,000)
Increase (decrease) in cash	(5,001)	(13,137)	7,491	(179,651)
Cash at beginning of period	126,154	84,000	113,662	250,514
Cash at end of period	$ 121,153	$ 70,863	$ 121,153	$ 70,863
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 121,153	$ 70,863	$ 121,153	$ 70,863

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

Notes to the Financial Statements

December 31, 2004 (unaudited)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act (the Act), Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with generally accepted accounting principles.

The accounting policies of significance to the Fund are as follows:

(a) **Portfolio investments**

Fixed-income securities, mortgages, equities, real estate investments and absolute return strategy investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment in fixed-income securities, mortgages, equities, real estate and absolute return strategies that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) **Investment Income**

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

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

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts are recorded at fair value.

(c) **Foreign Currency**

Foreign currency transactions are translated into Canadian dollars using average rates of exchange; except for hedged foreign currency transactions, which are translated at rates of exchange, established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(unaudited)

Note 2 (continued)

(d) Investment Valuation

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(iv) The fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including the replacement cost approach, direct comparison approach, direct capitalization of earnings approach and the discounted cash flows approach.

(v) The fair value of Absolute Return Strategy Pool investments are estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

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

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

	December 31, 2004			March 31, 2004		
	Cost	Fair Value	% of Fair Value	Cost	Fair Value	% of Fair Value
Fixed income securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 121,153	$ 121,153	1.0	$ 113,662	$ 113,662	0.9
Canadian Dollar Public Bond Pool (b)	3,039,521	3,106,579	25.1	3,135,075	3,223,579	25.7
Bonds, notes and short-term paper, directly held (c)	23,251	24,121	0.2	23,799	25,304	0.2
Private Mortgage Pool (d)	516,833	531,793	4.3	544,000	558,409	4.5
Provincial corporation debentures, directly held (e)	90,294	136,905	1.1	94,656	150,125	1.2
Loans, directly held (f)	93,259	93,259	0.8	93,144	93,144	0.7
	3,884,311	**4,013,810**	**32.5**	**4,004,336**	**4,164,223**	**33.2**
Public equities						
Canadian public equities						
Domestic Passive Equity Pooled Fund (g)	883,219	1,009,578	8.2	989,162	1,152,226	9.2
Canadian Pooled Equity Fund (h)	517,193	621,280	5.0	581,354	699,381	5.6
External Managers Canadian Equity Enhanced Index Pool (i)	306,922	323,194	2.6	-	-	-
External Managers Canadian Large Cap Equity Pool (j)	180,234	209,286	1.7	576,697	674,266	5.4
Growing Equity Income Pool (k)	159,657	179,430	1.5	182,284	191,135	1.5
Canadian Multi-Cap Pool (l)	139,476	137,871	1.1	-	-	-
External Managers Canadian Small Cap Equity Pool	-	-	-	36,611	51,135	0.4
	2,186,701	**2,480,639**	**20.1**	**2,366,108**	**2,768,143**	**22.1**
United States public equities						
S&P 500 Index Fund (m)	940,906	1,056,817	8.5	914,333	1,031,374	8.2
External Managers US Large Cap Equity Pool (n)	301,716	286,756	2.3	687,476	685,839	5.5
External Manager US Small/Mid Cap Equity Pool (o)	234,493	243,408	2.0	224,758	244,619	1.9
Portable Alpha United States Equity Pool (p)	297,496	282,649	2.3	-	-	-
	1,774,611	**1,869,630**	**15.1**	**1,826,567**	**1,961,832**	**15.6**
Non-North American public equities						
External Managers EAFE Core Equity Pool (q)	953,701	1,042,751	8.5	949,210	1,027,313	8.2
External Managers EAFE Plus Equity Pool (q)	492,279	530,447	4.3	460,474	500,339	4.0
External Manager EAFE Passive Equity Pool (r)	265,164	363,106	2.9	366,816	525,190	4.2
External Managers Emerging Markets Equity Pool (s)	126,829	138,863	1.1	-	-	-
	1,837,973	**2,075,167**	**16.8**	**1,776,500**	**2,052,842**	**16.4**
Real estate						
Private Real Estate Pool (t)	960,304	1,071,108	8.7	871,959	949,771	7.6
Foreign Private Real Estate Pool (u)	44,034	41,377	0.3	-	-	-
	1,004,338	**1,112,485**	**9.0**	**871,959**	**949,771**	**7.6**
Absolute Return Strategies						
External Managers Absolute Return Strategy Pool (v)	**600,698**	**598,005**	**4.8**	**512,075**	**507,721**	**4.0**
Private Equity and Income (w)						
Private Equity Pools	176,932	163,045	1.3	135,934	122,734	1.0
Private Income Pool	47,018	46,323	0.4	13,638	13,624	0.1
	223,950	**209,368**	**1.7**	**149,572**	**136,358**	**1.1**
Total investments (x)	**$ 11,512,582**	**$ 12,359,104**	**100.0**	**$ 11,507,117**	**$ 12,540,980**	**100.0**

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at December 31, 2004, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	December 31, 2004	March 31, 2004
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	36.0	38.3
Canadian Multi-Cap Pool	86.3	–
Canadian Pooled Equity Fund	67.1	67.8
Domestic Passive Equity Pooled Fund	45.4	49.2
Foreign Private Equity Pool (02)	43.8	43.8
Foreign Private Real Estate Pool	87.1	–
Growing Equity Income Pool	72.4	75.3
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	62.1
Private Equity Pool (04)	77.0	–
Private Income Pool	25.7	38.8
Private Mortgage Pool	44.2	46.6
Private Real Estate Pool	40.4	43.1
Standard & Poor's 500 Index Fund	79.8	82.1
Portable Alpha United States Equity Pool	88.8	–
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.5	88.5
Canadian Large Cap Equity Pool	7.8	21.9
Canadian Small Cap Equity Pool	–	8.2
Canadian Equity Enhanced Index Pool	86.3	–
EAFE Core Equity Pool	32.7	33.5
EAFE Passive Equity Pool	79.9	78.4
EAFE Plus Equity Pool	34.0	33.4
Emerging Markets Equity Pool	33.6	–
US Large Cap Equity Pool	25.6	35.2
US Small/Mid Cap Equity Pool	27.8	35.5

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2004, securities held by the Fund have an average effective market yield of 2.64% per annum (March 31, 2004: 2.11% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at December 31, 2004, securities held by the Pool have an average effective market yield of 4.31% per annum (March 31, 2004: 4.20% per annum) and the following term structure based on principal amount: under 1 year: 2% (March 31, 2004: 2%); 1 to 5 years: 39% (March 31, 2004: 40%); 5 to 10 years: 31% (March 31, 2004: 30%); 10 to 20 years: 13% (March 31, 2004: 10%); over 20 years: 15% (March 31, 2004: 18%).

(c) As at December 31, 2004, fixed-income securities held directly by the Fund have an average effective market yield of 3.04% per annum (March 31, 2004: 2.69% per annum). As at December 31, 2004, fixed-income securities have

(unaudited)

Note 3 (continued)

the following term structure based on principal amount: under one year: 100%.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.9%) and provincial bond residuals (6.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at December 31, 2004, securities held by the Pool have an average effective market yield of 5.18% per annum (March 31, 2004: 5.50% per annum) and the following term structure based on principal amount: under 1 year: 4% (March 31, 2004: 7%); 1 to 5 years: 21% (March 31, 2004: 23%); 5 to 10 years: 41% (March 31, 2004: 26%); 10 to 20 years: 14% (March 31, 2004: 20%); and over 20 years: 20% (March 31, 2004: 24%).

(e) As at December 31, 2004, Provincial corporation debentures have an average effective market yield of 7.44% per annum (March 31, 2004: 7.10% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100%.

(f) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at December 31, 2004, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245, 000 (March 31, 2004: $91,245,000) and the Vencap loan amounting to $2,014,000 (March 31, 2004: $1,899,000). The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $91,245,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at December 31, 2004 amounted to $92,516,697 (March 31, 2004: $88,414,959). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588,000, is due July 2046 and bears no interest.

(g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(h) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining

(unaudited)

Note 3 (continued)

maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(i) The externally managed Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.

(l) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period.

(m) Publicly traded US equities held in the S & P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool (see Note 3g).

(n) The US Large Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap equity market. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S&P) 500 Index over a four-year period. Return volatility is reduced through multiple manager investment style and large capitalization focus.

(o) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap US equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(p) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index over a four-year period.

(unaudited)

Note 3 (continued)

(q) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(r) The externally managed EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period.

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

(t) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 5%. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(u) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 5%. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(v) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(w) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool invests in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(x) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best

(unaudited)

Note 3 (continued)

judgement that the decline in value is caused by short-term market trends and is temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

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

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2004.

(thousands)

	Maturity			December 31, 2004		March 31, 2004	
	Under 1 Year	1 to 3 Year	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	66%	34%	–	$ 1,385,385	$ 40,196	$ 1,117,982	$ (8,244)
Interest rate swap contracts	42%	50%	8%	557,354	(19,294)	684,837	(30,484)
Forward foreign exchange contracts	100%	–	–	827,714	35,902	590,114	4,825
Cross-currency interest rate swaps	8%	27%	65%	478,608	(8,059)	398,256	(45,969)
Credit default swap contracts	22%	26%	52%	128,513	955	49,141	(384)
Bond index swap contracts	100%	–	–	60,562	1,175	45,613	1,114
Cross-currency interest rate swaps	100%	–	–	62,431	7,147	8,919	965
				$ 3,500,567	$ 58,022	$ 2,894,862	$ (78,177)

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

NOTE 5 INVESTMENT RISK MANAGEMENT

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

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2004-2007 Business Plan proposes the following asset mix policy for the Endowment Portfolio.

	2004-05	2005-06	2006-07
Public equities	46.0%	45.0%	45.0%
Fixed income securities	35.0%	35.0%	32.5%
Real estate	10.0%	10.0%	10.0%
Absolute Return Strategies	5.0%	5.0%	7.5%
Private equities	4.0%	5.0%	5.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 FUND EQUITY

Section 8 (2) of the *Alberta Heritage Savings Trust Fund Act* (the Act) states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value shall be transferred to the General Revenue Fund annually in a manner determined by the Minister of Finance.

Section 11(4) of the Act states that for fiscal years subsequent to 1999 and until the accumulated debt is eliminated in accordance with the *Fiscal Responsibility Act*, the Minister of Finance is not required to retain any income in the Heritage Fund to maintain its value, but may retain such amounts as the Minister of Finance considers advisable.

NOTE 7 NET INCOME (LOSS)

(thousands)

	Three Months Ended Dec. 31, 2004	Three Months Ended Dec. 31, 2003	Nine Months Ended Dec. 31, 2004	Nine Months Ended Dec. 31, 2003
Deposits and fixed income securities	$ 69,955	$ 69,731	$ 210,077	$ 228,097
Canadian equities	175,295	174,588	352,483	350,000
United States equities	34,212	30,219	40,108	11,538
Non-North American equities	22,395	23,021	172,975	47,910
Real estate	19,033	20,899	47,314	41,784
Absolute return strategies	21,853	(1,693)	17,741	21,476
Private equities and income	7,488	1,168	9,074	4,172
Investment income	350,231	317,933	849,772	704,977
Direct administrative expenses (Note 8)	(532)	(582)	(1,980)	(1,861)
Net investment income	$ 349,699	$ 317,351	$ 847,792	$ 703,116

Investment income (loss) is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools. (See Note 8).

The investment income for the nine months ended December 31, 2004 includes writedowns totalling $23,966,000 (December 31, 2003: $2,535,000).

NOTE 8 ADMINISTRATIVE EXPENSES

Administrative expense includes investment management, cash management, safekeeping costs and other expenses charged on a cost-recovery basis directly from Alberta Finance. The Fund's total administrative expense for the period, including amounts deducted directly from investment income of pooled funds is as follows:

			(thousands)	
	Three Months Ended Dec. 31, 2004	Three Months Ended Dec. 31, 2003	Nine Months Ended Dec. 31, 2004	Nine Months Ended Dec. 31, 2003
Direct fund expenses (Note 7)	$ 532	$ 582	$ 1,980	$ 1,861
Externally managed investment pools	3,290	2,779	11,683	9,199
Internally managed investment pools	825	946	2,875	2,797
Total	$ 4,647	$ 4,307	$ 16,538	$ 13,857
Percent of net assets at fair value	0.038%	0.036%	0.135%	0.112%

NOTE 9 INVESTMENT PERFORMANCE

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

	Three Month Return	Nine Month Return	Five Year Compound Annualized Return
Time weighted rates of return			
Overall actual return	5.3%	5.6%	4.3%
Benchmark return*	5.0%	5.0%	7.0%

* The overall benchmark return for three months and nine months is a product of the weighted average policy sector weights and the sector benchmark returns. The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 2.5%. Therefore, the Fund is expected to generate a nominal annualized rate of return of 7.0%.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Ministry of Finance, Deputy Minister of Revenue approved these financial statements.

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